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Royal Commission
on
Banking and Finance

MONTREAL STOCK EXCHANGE

CANADIAN STOCK EXCHANGE

AND

THE TORONTO STOCK EXCHANGE

Hearings
held at
OTTAWA

Vol.
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ROYAL COMMISSION ON BANKING AND FINANCE

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Hearings held at Ottawa,
Ontario, on Monday,
September 17th, 1962.

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THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

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- - - - - -

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

Ottawa, Ontario,
Monday, September 17, 19

--- On resuming at 9.25 A.M.

SUBMISSION OF

MONTREAL STOCK EXCHANGE,
CANADIAN STOCK EXCHANGE
AND
THE TORONTO STOCK EXCHANGE

APPEARANCES

MONTREAL STOCK EXCHANGE

E.W. Kierans - President.
P. B. Reid - Chairman.
Ivan A. Martin - Vice-Chairman.
T.A. O'Hara - Montreal Stock Exchange
G. A. Cruickshank - Executive Vice-President.
J. D. Kadlec - Consultant in preparation of brief.

CANADIAN STOCK EXCHANGE

E. Kierans - President.
G. A. Cruickshank - Executive Vice-President
Guy Hudon - Canadian Stock Exchange
J. D. Kadlec - Consultant in preparation of brief.
H. A. Wheeler - Canadian Stock Exchange.

J. T. Thompson - Vice-Chairman.

APPEARANCES
(cont'd.)

THE TORONTO STOCK EXCHANGE

H. D. Graham	- President
G. R. Gardiner	- Chairman of the Board of Governors
Marshal Stearns	- Vice-Chairman
W. L. Somerville	- Executive Vice-President
R. N. Steiner	- Member, Board of Governors
R. J. Breckenridge	- Member of T.S.E.
M.A.J. Moysey	- Partner Member firm of T.S.E

THE CHAIRMAN: Call the meeting to order. The Toronto Stock Exchange and the Montreal Stock Exchange. I think we might as well proceed, gentlemen, because we have got to get through and no doubt the others will be here in due course.

I don't know, Mr. Graham, if you propose to make a statement before we put some questions to you or whether you want us to go right ahead.

MR. GRAHAM: No, we had not intended to make a statement, but I might just take this opportunity of introducing our team to the members of the Commission.

Next to me on the left is Mr. George Gardiner, who is Chairman of our Board of Governors. On his left is Mr. Marshal Stearns, who is vice-chairman of the Board of Governors. Next to him is Mr. W. L. Somerville, Executive Vice-President and, like myself, a full time paid employee of the Exchange.

In the outfield we have Mr. Moysey, who in the stock exchange is chairman of the committee which we refer to in the brief as the Filing Statement Committee. Next is Mr. Breckenridge, who is the Chairman of the Floor Procedure Committee, and on the left flank Mr. Steiner, who is a governor and the chairman of the Listing Committee, and we think that this group may be able to deal with any questions you may have to ask.

THE CHAIRMAN: Will you proceed with the questions.

COMMISSIONER HARROLD: Mr. Chairman, I would like to start off with a couple of questions on th

functions of the industry. Your brief indicates most of the revenue for members of the brokerage business does show a percentage that comes from trading and underwriting. Is there any breakdown of that percentage? Is it mostly from trading or mostly from underwriting, and if so, how much? I think the percentage is from 7 to 14 per cent, which is accounted for by trading and underwriting.

MR. GRAHAM: Your question is how much of it is underwriting; how much of the revenue comes from underwriting and how much from trading?

MR. GARDINER: Unfortunately, Mr. Pettit, who is the stock exchange auditor who is responsible for the merging together of the revenue statements and the balance sheets of the firms involved is not here yet, but this is a confidential matter for members of the stock exchange who put these together, and he will be here later on in the morning and will be able to answer that question. My suspicion is that it would be mostly underwriting, but this is only a guess.

COMMISSIONER HARROLD: You say, then, arising out of that question that there is a trend towards more underwriting by the members of the stock exchange than there has been in the past; is that a trend or isn't it a trend?

MR. GARDINER: This is my personal opinion and other members may disagree, but I think what has happened is that the old-time members of the stock exchange, those who acted as agents, are slowly doing a little more underwriting business where, on the other

hand, the old-time underwriting firms are doing more stock brokerage business, and I think that this definitely is a trend. This is my personal opinion.

MR. STEARNS: I think also there has been a trend over the last few years of I.D.A. members who have done a considerable amount of underwriting, which would increase that.

COMMISSIONER HARROLD: In other words, there is more variation between I.D.A. members and former members of the stock exchange?

MR. GARDINER: Definitely.

MR. GRAHAM: Mr. Steiner may have something to say on that.

MR. STEINER: Only to support this statement.

COMMISSIONER HARROLD: Have you any reasons to give why this is happening? You mention the complete services; is that probably the answer to it, more complete services?

MR. GARDINER: You mean the reason there are more brokerage firms now doing underwriting or more underwriting firms doing brokerage business?

COMMISSIONER HARROLD: Either way?

MR. GARDINER: All right. Yes, I think one reason is a more complete service. Also, I think that strictly in the brokerage business in many years it is very hard to make a profit and I think that the object of underwriting sales enables the firm to make a profit, where in another year it might not.

MR. STEINER: You should understand that the figure on underwriting which you have does not in any

sense represent participation of the total industry in underwriting. You are looking at the stock exchange member figure. The vast bulk of underwriting is done by the I.D.A. affiliates or by firms that possibly have no exchange policy. We are here discussing a division of revenue between brokerage and underwriting as it applies to stock exchange member houses.

MR. GARDINER: As an example, I don't know whether you know it, but the Ames partnership -- which is the brokerage business -- are the figures given in here, whereas the Ames underwritings are with the I.D.A.

COMMISSIONER GIBSON: If I can ask a supplementary question, I am a little surprised to hear you say that the underwriting function is tending to increase on the part of some of the firms with the decline in mining financing, associated with the concentration in big concerns in the mining business and also with the lack of enthusiasm about gold in the post-war period; is this just a recent trend or is there actually a trend for more underwriting on the part of stock exchange members? Am I wrong in this?

MR. GARDINER: It is hard to generalize. I don't know if we have statistics to show this, but I can talk about my own firm, and what has happened is that straight brokerage has gotten into underwriting ventures and I think this is true about a great number.

MR. STEARNS: I agree with that, Mr. Chairman.

MR. GARDINER: There certainly is a definite trend; more companies are going public each year, and

I think there is more interest.

MR. SOMERVILLE: It is not a long term trend; it is more apparent in the last three or four years on short term rather than over a ten year period.

COMMISSIONER GIBSON: It is not so closely associated with the mining industry?

MR. GARDINER: The oil industry came in in 1948 and 1949, and this created a lot of underwritings in firms that didn't underwrite before. This was a new industry where every firm had an opportunity of getting in. They were not old line connections and I feel that there certainly were a greater number of firms underwriting as a result of the oil industry than there were before.

COMMISSIONER HARROLD: I have no more questions on the functions, but I do have a question on the structure. The Montreal people are not here yet, but I notice in the statistics of the two different briefs it is suggested in Montreal the number of members in the Montreal group has increased in the last twelve years by 25 per cent, whereas the Toronto group doesn't show any increase or, I believe, there is no table in any event showing an increase in the number of members of the Toronto Stock Exchange; is there any explanation for this or is there a different way of setting out your membership list, or what is the reason for it?

MR. GRAHAM: Our membership has remained constant at 113 authorized members. I don't know whether Montreal have increased their membership or whether there were a number of vacancies that have been filled.

Perhaps somebody here knows that.

MR. GARDINER: I don't know.

MR. GRAHAM: You mean people that hold seats?

COMMISSIONER HARROLD: No, the ones that are dealing with the public.

MR. GARDINER: Member firms?

COMMISSIONER HARROLD: Yes, dealing with the public.

MR. GARDINER: Member firms are the members and I think in Toronto it is 98. I know that Montreal had a lot of what they called floor brokers at one time where they did nothing else but trade on the floor and didn't deal with the public, but I don't think they are around any more, and as a result these memberships transferred over to active firms.

As far as Toronto is concerned, we have 113 seats and that is all we have had since the merger of the stock exchange in 1934, of which there are 98 active firms, because it is shown on the tables that some firms have more than one seat, because you have to have more than one seat if you want that number of attorneys on the floor.

THE CHAIRMAN: We will stop here for a moment; I understand that the Montreal Stock Exchange is without.

MR. KIERANS: I apologize for being late, Mr. Chairman. There was a mix-up as to the place of the hearing.

Now, I would like to introduce myself and the members who are with me. I am E. Kierans, president of the Montreal Stock Exchange and the Canadian Stock

Exchange. On my right is Mr. P. B. Reid, chairman of the Montreal Stock Exchange, and on his right is Mr. Ivan Martin, Vice-chairman of the Montreal Stock Exchange. At the extreme right is Mr. George A. Cruickshank, Executive vice-president of the Montreal Stock Exchange and the Canadian Stock Exchange.

In the second row is Mr. Guy Hudon of the Canadian Stock Exchange; Mr. J. D. Kadlec, consultant in the preparation of our brief; Mr. H. A. Wheeler, of the Canadian Stock Exchange; Mr. Tom O'Hara of the Montreal Stock Exchange and Mr. J. T. Thompson, vice-chairman of the Canadian Stock Exchange.

THE CHAIRMAN: In questioning the Toronto Stock Exchange on the functions of the industry, we haven't proceeded very far, so we will continue now.

COMMISSIONER HARROLD: The questions which I had asked before the Montreal group came in had to do with the structure, and I noticed in comparing the members of the Montreal Stock Exchange and the Toronto Stock Exchange that it showed that the Montreal and Canadian Exchange had increased over the past twelve years the member firms dealing with the public by 25 per cent. My question was asking for an explanation or the reason for this increase.

MR. KIERANS: We haven't, as far as I know, increased the number of seats; what may have happened is that the active firms dealing with the public may have increased. That is, other seats may have been taken up; some of our members may have had two or three seats and sold them.

MR. CRUICKSHANK: I think that would be the answer.

MR. KIERANS: There were a lot of seats just held nominally, and with the greater activity on the exchange those have come to have more value and have been purchased by active members.

COMMISSIONER HARROLD: Because of the increase of greater activity?

MR. KIERANS: I would think so.

COMMISSIONER HARROLD: As to the branch offices, has there been a trend towards organized offices in Canada in the post-war period?

MR. GARDINER: Very much so.

COMMISSIONER HARROLD: These branch offices, I suppose, have had mainly the retail business?

MR. GARDINER: Well, you mean retail rather than wholesale?

COMMISSIONER HARROLD: Yes.

MR. GARDINER: Yes, I would think so.

COMMISSIONER HARROLD: Would you say that the retail market is diminishing in importance relatively or absolutely because of the institutionalization of savings?

MR. GRAHAM: You mean by "retail market" the individual buyer of securities as opposed to the institutions that have grown up? No, I would say that the number of individual buyers has increased very greatly in the past few years and this perhaps is due to some extent by the activities of the stock exchanges themselves in trying to induce people to buy

equities because they believe this is a good thing.

COMMISSIONER HARROLD: Is there any increase towards branches of Canadian firms in the United States?

MR. GARDINER: The number of branches of Canadian firms in the United States can be almost counted on one hand, and in the past three years it has perhaps been an increase of one or two, which is hardly a significant amount, but perhaps a significant percentage.

MR. SOMERVILLE: I think I can answer that; for tax reasons most branches of Toronto firms are operated as American corporations. They are all in New York City and they are mostly trading outfits rather than dealing with the public and they are incorporated under American law and pay American taxes, so they wouldn't be categorized as a branch of the Toronto firm.

MR. GARDINER: They are really an affiliate.

MR. SOMERVILLE: Yes.

COMMISSIONER HARROLD: In the Montreal brief I believe the statistics indicate that the main growth is in the medium sized firms. Would you suggest that there is an optimum size of firm? Is that the reason the medium sized firms are probably growing more relatively?

MR. KIERANS: I wouldn't know how to explain that, the medium sized firms growing. Actually, we have noticed that our larger firms are getting stronger with the opening up of branch offices, and so on. It may have been just the normal growth of the medium sized firms. The smaller firms are disappearing.

COMMISSIONER GIBSON: But there are great variations in size?

MR. KIERANS: Your research facilities and all the things which can give better service to the client are what is making the larger firms the more accepted form of organization.

COMMISSIONER GIBSON: Is there any optimum size? When you get to a certain size, is that big enough to be really efficient?

MR. KIERANS: I don't think there is any optimum size.

MR. REID: I wouldn't know of any. I think it is just the development, but probably some of the firms have merged and the smaller firms are probably diminishing in importance because of the way business is going presently to the medium sized firms. Eventually they may become bigger as well.

COMMISSIONER GIBSON: But there are still advantages in being bigger and in specializing, and so on?

MR. KIERANS: Very definitely.

COMMISSIONER HARROLD: This would be more prevalent in the underwriting end of the business rather than the brokerage end, would it not, isn't size important?

MR. KIERANS: Stock exchange members get out repo on corporations, and all of this is part of the service provided by the member firms of our exchanges and you have to have the money to have a sophisticated research staff and not just one or two young college graduates.

MR. GARDINER: May I ask a question? What do you mean by advantages?

COMMISSIONER GIBSON: Efficiency.

MR. GARDINER: Nothing to do with profitability?

COMMISSIONER GIBSON: Yes; efficiency has to do with profitability in unit costs, let us say.

MR. GARDINER: Yes, but your unit income might be a lot smaller in a large firm too because of the branch business. I am speaking of the costs of doing business, and I would think that a medium-sized firm, in relation to capital, would be more profitable than a large firm.

COMMISSIONER GIBSON: But still a medium-sized firm would want to get bigger because of certain advantages with respect to the availability of expert advice it could hire, and so on.

MR. GARDINER: Yes, except the costs go up. If you want to argue profit-wise I think it could be said there might be an optimum size. There could be. I think the larger you get the higher your costs, and therefore your net per trade will be much smaller because you spread out and do business throughout the country, whereas one small firm with very low overhead and no branch offices will have a much higher income per trade, even though it cannot perform the same services and get the same business.

COMMISSIONER GIBSON: The statistics of the Toronto Stock Exchange, and those of the Montreal Stock Exchange even more, suggest that the most rapid percentage growth has been in the medium-sized

firms. I think this is rather significant. Does this mean that perhaps the medium-sized firms tend to specialize a little more and get a higher return per unit of operation?

MR. GARDINER: I would think so.

COMMISSIONER HARROLD: You are suggesting that a branch office doesn't seem very profitable?

MR. GARDINER: That would be a matter of opinion.

COMMISSIONER LEMAN: It has been suggested to us by the Investment Dealers' Association that the costsof spreading out to the country outside the large metropolitan areas, at least in the bond business, -- the costs are relatively high and this has been an impediment. How does that argument stand up in the light of the sales of stock outside immediate centres where the brokerage offices are located?

MR. MARTIN: I think that is offset by the increased volume you get through your branch office system. Even though, as Mr. Gardiner mentioned, your unit costs are higher, your volume offsets this.

COMMISSIONER LEMAN: One thing that is striking in all the statistical studies that have been made showing the holdings of equity securities, especially in the Province of Quebec, that the Montreal Stock Exchange has put in itsbrief, is that no mention is made of the sales effort that has been made throughout the country. Is this not an important factor to be taken into consideration?

MR. KIERANS: There are not enough branch

offices in the Province of Quebec. It is difficult to make a branch office pay in Rimouski, Chicoutimi or wherever it may be, because of the relatively low level of interest of the French Canadian in equities. So, it is difficult for our members to make a branch office pay.

COMMISSIONER LEMAN: Are we facing a bit of a chicken and egg problem?

MR. KIERANS: No. This situation is changing in the province and I think conditions are such that member firm are beginning to expand their operations in the province because they can now reach more quickly a break-even point in their operations in Chicoutimi or in Sherbrooke. This is part of the general awakening in Quebec.

COMMISSIONER GIBSON: In answer to a question by Commissioner Harrold one of the representatives said that the retail market for common stocks was not diminishing relative to the general growth of the economy. We have seen a lot of evidence of increasing -- this is an awful word - institutionalization of savings, not just to insurance companies and banks but the latest type of thing has been the mutual fund which has been operating and is available to the very people to whom you sell stocks. Surely this must have reduced the increase which would otherwise be expected in the retail purchase of stock, is that not correct?

MR. GRAHAM: I would think it is a fair assumption that it would. A good many people are buying into mutual funds, and if those mutual funds were not available they would perhaps buy on their own.

COMMISSIONER GIBSON: You would have a more

receptive market for individual sales under those circumstances?

MR. GRAHAM: I would assume that would be so.

MR. GARDINER: I do not think that is necessarily true. A lot of people who would not buy common stocks before have now become sold on mutual funds and have become educated in this way of thinking and as a result would show more interest in buying common stocks.

MR. KIERANS: I would agree completely with Mr. Gardiner, for I think the mutual funds in other institutions have done a great deal to spread the gospel of investing in equities. Their promotional and sales efforts have been proportionately very strong.

COMMISSIONER GIBSON: This is what I want to get. In other words, you think there is a growing interest in the community in the purchase of equities and this would benefit the retail business you do as well as the mutual funds?

MR. KIERANS: Oh, yes.

MR. GARDINER: The volume of business in the stock exchange is going up, true enough, and despite the fact individuals might not have as big a percentage as they had beforehand, there are more of them and they are buying more than they were before.

THE CHAIRMAN: Statistics show that brokerage commissions have been going up. Have you any figures about the number of individuals, not transactions,

that are involved?

MR. GARDINER: No.

MR. GRAHAM: This is one of the things we have not got and it might be one of the points that the Commission might suggest to the Dominion Bureau of Statistics that it do a survey on in the future.

THE CHAIRMAN: This could be obtained from individual firms./ In other words, the number of active customers on their books in any one year would disclose this.

MR. GRAHAM: Yes.

MR. STEINER: That would involve quite a bit of duplication in that many clients deal with more than one firm.

THE CHAIRMAN: This is something you would have to accept, but at least you would see a trend. There would not be absolute figures but you could get comparative figures.

COMMISSIONER GIBSON: You talk about an increasing interest in the United States in Canadian stocks. Would anybody care to say a word or two about the problems of selling Canadian equities to Americans these days? Do you find any particular barrier in the way or any particular attitude?

MR. MARTIN: I think you run into two very distinct fields there. One is the seasoned equity, which has a good demand. A lot of the buying is done in the New York market. And then, of course, you have the strictly outright speculations which we suspect are done, perhaps in some instances from this

country, for the most part on an illegal basis. There seems to be a lot of speculative security, but it seems that a flood of securities have gone down to the United States by means which I do not think are part of the operations of anybody represented before this Commission this morning on the Montreal or Toronto stock exchanges, but a lot of brokers have undoubtedly sold securities in the United States which would not be sold in Canada, not having been legal.

MR. REID: I do not think I would call them brokers. I would prefer to call them stock pushers who, through the boiler shop operations, have sold quite a few stocks over a wide area in the United States. We get enquiries about this later on after the market has disappeared. They have been pretty much pure swindles, and this has been somewhat of a problem.

COMMISSIONER GIBSON: And this would damage your name.

MR. REID: Yes, this damages our name. Probably the original promoter might not have been a Canadian at all.

COMMISSIONER GIBSON: There has been a waning of interest in Canadian first-class stocks in the last couple of years in the United States. Would you care to say anything about that?

MR. REID: I would say it is due to the lack of improving profits and dividends of Canadian stocks. Our economy has not gone very far in the

last five years, and there has been very little appreciation in most of our stocks.

COMMISSIONER GIBSON: There have been quite big swings in American interest. Are you concerned about this at all?

MR. REID: I have been rather happy to know it has not had as much effect as it could have had. The liquidation has been more or less orderly. It is probably still a problem for us. I do not know how serious it will be but so far it has not been really too serious.

MR. MARTIN: I think some of the attrition has taken place place as a result of the new Estates Tax Act that was put on the statute books in the last couple of years; this coupled with certain threatened legislation in the United States. I think there has been quite a bit of attrition on that account.

COMMISSIONER GIBSON: Is there any feeling of nationalism among Canadian houses? Do they make a vigorous effort to sell as much as they can in Canada?

MR. REID: I would say you sell stock wherever you can sell it.

COMMISSIONER GIBSON: In other words, it is a market.

MR. REID: Yes.

MR. O'HARA: I think research has a lot to do with it. We know very little about American stocks, whereas our own research department knows a

good deal about Canadian. Somebody walks in and asks you about a company in the United States. You have never heard about it, and you have to rely on someone else for your information and you are not inclined to go out and sell American stocks in that case.

MR. KADLEC: At the present time a study is being made to formulate certain statistics on American investment in Canada. As you may know, in the Montreal and Canadian exchanges we have a closed index now on countries scattered throughout the spectrum of the industry that have been specifically consulted to see the investment interest of Americans rather than the interest of Americans for the purpose of acquiring control. Unfortunately this is the initial year that this study has been run and we will not be aware of the trend at least until next year, but we will notice a diminishing or increasing size of the foreign investors in that segment, which will tend to indicate whether or not Canadian securities are being accepted abroad in competition with the securities of the rest of the world.

COMMISSIONER BROWN: The figures given by the Montreal Stock Exchange include some statistics showing the earnings applicable to the Canadian operations of American stock exchange members who are members of either Toronto or Montreal, and a rising trend is shown. In other words, their share of the total brokerages for both Montreal and Toronto appears to be increasing. Now, is this because Canadians

are buying American stocks or because Canadians have become interested in American stocks through these firms? Does it result from them handling Canadian purchases and sales for American accounts or does it result from them obtaining a greater share of control of the Canadian market? Have you any opinions on which of these it might be, or perhaps there is still another factor I have overlooked?

MR. KIERANS: Well, certainly they have extended their activities in Montreal. They were in Toronto in greater strength but in the last few years they have been extremely aggressive in Montreal. They have well-qualified and well-trained salesmen and they are capturing a greater share of the market. Now, they try to push American securities where they possibly can because, as Mr. O'Hara has indicated, they probably initially know a great deal more about Gulf than they do about Canadian oil, but I would put it to the fact that their parent organization can subsidize far greater facilities here, far greater sales staff, and far greater research facilities and put more merchandising pressure on the Canadian market. Mind you, this is of some good too because I know of one firm in particular in Quebec that has done a great deal to hit at the French Canadian market to make the French Canadian a more sophisticated investor in equities, and so on. I would put their growth down to straight marketing and financial power.

COMMISSIONER BROWN: But are they interested in Canadian or American equities?

MR. KIERANS: The people actually in the business would know that better than I do but my own impression is they go to the client and try to sell the client what he himself is interested in and then far more than any gentleman around here would do they bring to the client's attention the fact there are investment opportunities in the oil industry in the United States, and so on. So they will put a lot of pressure on switching the Canadian into American stocks. There is no question about that, I would think.

MR. O'HARA: I believe that in the last couple of years there have been more glamourous stocks in the United States than there have been in Canada, and I think that Canadians, through these American firms, have gone looking for that sort of thing.

MR. REID: It is natural that a U.S. firm, when it opens up in Canada, because they are familiar and have a great deal of specific information about U.S. stocks, tend to promote those stocks among their Canadian clients. As Mr. O'Hara has said, there has been more opportunity to bring interest into these stocks because of the American action.

COMMISSIONER BROWN: Have the Toronto Stock Exchange representatives an opinion on this?

MR. GARDINER: I have an opinion. I agree with Montreal. I feel that the American firms are very strenuous in their competition. Their firms have many branches and therefore they can afford for

many years to run a branch at no profit in order to build up a large market clientele, and they have very skilled personnel in research, their salesmen are aggressive and the firms spend a lot of money and are willing to look long-term and they can afford to do so. They can afford to attract the best salesmen and they pay them more on the American business they bring in, whereas we have American business and we get nothing back. The American firms can offer a very attractive proposition so that they can attract the best salesmen and they spend the most money.

COMMISSIONER BROWN: Their figures appear to indicate they make money.

MR. GARDINER: Does Montreal have the figures for the American branches?

MR. CRUICKSHANK: Yes, we have reported on the American firms.

MR. KIERANS: Separately.

MR. STEARNS: The American firms certainly do not ignore the Canadian companies. There are some very good statistics put out by the American firms, which I have seen myself, and these are circulated. I agree with Mr. Gardiner, however, that the American branches receive their direction from abroad.

COMMISSIONER HARROLD: The next question has to do with a personnel aspect. The matter of training has been mentioned here a couple of times during the last few minutes, and in connection with the training of personnel in the industry as such the Montreal group makes some mention of the fact that they have not been able to attract a large number of college graduates. What is the educational background of most of the new entrants into the industry?

MR. SOMERVILLE: Our experience has been in the last seven or eight years that there is a larger proportion of entrants in the salesman and customers' man category that have at least some university background. I would say, perhaps, a third of the applicants have, if they are not all graduates, at least some university background.

COMMISSIONER HARROLD: Does Montreal wish to add anything to that?

MR. MARTIN: No, except to agree with Mr. Somerville that the quality of the trainees, used to call them, seems to be improving, and perhaps they are a little bit easier to come by. It is the lean early years that do not attract the young college graduates. This can be a very remunerative career, but it is not at the outset. This is the problem that we are faced with in attracting young men. They have to go through a period of apprenticeship before they begin to earn money.

THE CHAIRMAN: Do you find it is an advantage to have a college education in your business?

MR. MARTIN: At the outset I would say very definitely "Yes".

MR. REID: More boys are going to college. I think it is inevitable that the quality will rise because the same boys who used to go to work after leaving high school are now going to college. I think we will get some improvement, and I think it is an advantage to have some college education.

MR. KIERANS: I think the problem has to be shortened at both ends. The industry can very definitely benefit from more youngsters with university degrees, and I think the business has probably been over-conservative in the opportunities it gives to the young men. The apprenticeship period has been too long. The new entrants have had to spend too long a time in the back office, and too long a time in the cashier's office, and youngsters just will not stand for that, so I think the time has to be shortened from that end. The American firms have done much to speed up that process, and if the Canadian firms are to attract college graduates they will have to keep in step.

Mr. Martin is quite right. I can say emphatically that this is an industry that should be attractive to the young man because he can make money in it if he is given enough scope at an early enough age. If the young men are given that scope then we will get them.

COMMISSIONER HARROLD: Is there any uniformity in the salaries that are offered for the different positions? I suppose it depends on what the new employee

is going to do.

MR. KIERANS: I think we are at the stage where the C.A. profession was some years ago, in which new entrants started at something very nominal. They are now starting at $75 or $100, and some years ago that is where the C.A. profession was. The C.A. profession was, on the one hand, trying to attract young men with college degrees, and with such a low starting salary they were not able to attract them. They had to improve the situation, and they did. Our people are now doing the same thing.

MR. O'HARA: For a commerce graduate coming into our industry there is pretty well throughout, at least in Montreal, a standard wage rate for them.

COMMISSIONER HARROLD: Would you be prepared to say what it is?

MR. O'HARA: Yes, they come into the industry at between $4,200 and $4,500 a year.

COMMISSIONER HARROLD: And after they join a firm is there any training given them either by the firm or by the exchange?

MR. REID: I would say that most of them start by taking the I.D.A. courses. There are two of them, and each takes a year. Some of them go on and take courses at McGill or at Toronto, and the Montreal Stock Exchange has given some thought to the setting up of a shorter course than those for training customers' men and even for training office employees. So far, we have not got it on the rails.

COMMISSIONER HARROLD: How are clients sought

in the industry by the people who are engaged in selling? You mentioned some research and some services that are offered -- advisory services -- but what about new clients? What is the usual procedure?

MR. MARTIN: I do not think we should tell Toronto any of our secrets on that. That is, perhaps, one of the hardest things in the industry -- the digging out and finding of new clients -- because the old ones have a habit of going off, and the salesman who is not constantly on the look-out for new clients is one who can only go one way on the street, and that is down. It is a worry, I think, to every firm in the business to maintain and increase its output of new clients. Speaking for my own firm, we conduct a very active new client campaign at all times in which a bonus is paid to our salaried salesmen for obtaining new clients. The best source of new clients is the satisfied old clients.

COMMISSIONER HARROLD: I suppose the advisory and research facilities are very important in keeping satisfied a person who has been a client for some time?

MR. MARTIN: Yes.

COMMISSIONER HARROLD: Does the question of price competition enter into this?

MR. MARTIN: Not as far as the stock business is concerned.

THE CHAIRMAN: I notice in connection with this matter of the training of men entering the business there is this statement in paragraph 24 of the brief of the Toronto Stock Exchange:

> "...the Exchange is concerned about the lack of adequate supervision, control and training of salesmen for Mutual funds."

There is not any very definite standard of training for your own employees?

MR. GARDINER: Our customers' men must try examinations, of course.

THE CHAIRMAN: Your customers' men?

MR. GARDINER: Yes, and the salesmen. They must pass that examination.

THE CHAIRMAN: But they do not have to take any particular course, do they?

MR. GARDINER: No, but they must study the rules and regulations of the stock exchange, and also the Securities Act.

THE CHAIRMAN: That is pretty elementary.

MR. GARDINER: It is not easy.

MR. STEARNS: With respect to the I.D.A. courses, I and II, that Montreal mentioned, the customers' men who want to get ahead realize the advantages of those courses, and while it is not a requirement they do take advantage of those courses. In the industry itself, I think that you are kept on as a salesman because of your qualifications.

THE CHAIRMAN: It seems to be a rather loose system. There is not a definite standard, is there?

MR. GRAHAM: I think, Mr. Chairman, the exchanges -- not only our exchange but Montreal and Vancouver and other exchanges as well -- exercise much more control over employees in the industry than the

mutual funds do, and this is what we think should be done. There should be more control over the mutual funds salesmen. Every customers' man and salesman has to be approved by the stock exchange, and this approval can be withdrawn if it is found that the man is not acting properly and complying with the regulations. While our educational programme may not be as good as one might wish --

THE CHAIRMAN: I am not suggesting any impropriety. I am just trying to get a picture of the advantages of it, and also to understand how, perhaps, it might be improved. I do not know how intensive a programme is necessary under the circumstances.

MR. GRAHAM: I personally feel there is room for improvement in the education of people coming into our industry. We are planning on an educational programme that will improve the situation, as Montreal is.

THE CHAIRMAN: Do the Security Commissions require any examinations for mutual funds salesmen?

MR. SOMERVILLE: No, they do not require an examination for any entrant to the business.

MR. REID: The Securities Act does regulate the way in which the customers may be obtained, to some extent. You cannot put in any phone calls, for instance, to the residence of other than friends or business associates.

THE CHAIRMAN: I know, but they do not set up any standard that must be met before the person enters the business?

MR. STEARNS: No. They must obtain registration, and, of course, their past history and back-

ground is gone into.

MR. REID: It is not very difficult to get registration unless you have been a very bad boy.

COMMISSIONER LEMAN: Have you any figures as to the proportion of mutual funds that have been sold direct to sales that have been made through your members, because some mutual fund shares are sold through members of the exchanges.

MR. SOMERVILLE: Very few of them would be sold through our members. I think our figures show that there are some 67 mutual funds salesmen employed by our members, but the agents employed by the companies themselves are many times that figure. They make up a very small proportion of our business.

THE CHAIRMAN: The mutual funds are buying shares of stock of various kinds. They would do that through brokers, would they not?

MR. SOMERVILLE: We are talking about the sale of the funds' own shares.

THE CHAIRMAN: I know, but they do ---

MR. REID: Yes, they have to go through a broker.

THE CHAIRMAN: Yes, to add to their portfolios they would go through the brokers in the ordinary way, so you do have that business.

MR. MARTIN: I had occasion last week to ask that specific question of a very large mutual fund in Canada, and the answer I got was that 10 per cent was sold through brokers and dealers as opposed to 90 per cent sold by direct sales by their own sales organization.

I do not know whether that applies throughout the mutual fund industry in Canada.

COMMISSIONER MACKINTOSH: What is it that the mutual funds salesmen do that needs to be curtailed or limited?

MR. REID: I think some of them sell pretty hard. They go around and call on the clients and, of course, there have been cases where they have got clients to sell off a lot of good securities and put the money into their mutual fund. There is a little more high pressure to it, and, perhaps, they are not, in many cases, too well informed on the merits of the stocks that are being sold. Very good stocks may be sold off. But, this is not to say that their fund is not good.

MR. MOYSEY: I think a possible criticism of mutual funds salesmen, speaking in general terms, is that they lack training and they are, perhaps, over-endowed with enthusiasm. There is, perhaps, the same feeling that there is among life insurance salesmen that you cannot do anyone any harm by selling life insurance. They are liable to be much too optimistic in that respect, and tend to get people away from equity ownership. They are armed with all sorts of charts and figures which show that their mutual fund has had phenomenal growth, and this fits in with the cupidity of the public who tend to think they are necessary to the management of funds. Accordingly, such funds as Canadian savings bonds and other forms of secure investment have been changed for this new, attractive, overly-publicized vehicle. There is also a little less

responsibility on the employer in the case of the mutual funds salesmen, whereas a member of the stock exchange is ultimately responsible for any statements made by his employees, his customers' men and salesmen. The liaison is rather loose, we feel, in the mutual funds sales organization.

COMMISSIONER MACKINTOSH: Do you mean that a mutual fund is not responsible for what its agents say?

MR. MOYSEY: I have that feeling.

COMMISSIONER GIBSON: But this can be determined, can it not? Are they responsible under the law, or are they not? You people are.

MR. MOYSEY: Yes, we are responsible for over-statements and an over-agressive sales policy, but I know of nothing that restricts a mutual fund salesman in his enthusiasm because of this philosophy that basically by selling any security you are selling one that has no other means of participating in the markets, and that is a constructive factor. I am afraid that is a rather loose acceptance.

MR. GARDINER: Also, we are a self-policing body, and outside the law if our salesman acts detrimentally to the interests of the business of the public we can police it. The mutual funds do not police the activities of their salesmen. Perhaps they are within the law, but they do not do anything about it.

COMMISSIONER BROWN: Going back to a question which was asked a little while ago with respect to obtaining new clients it was mentioned that the Toronto

Stock Exchange has been conducting quite a campaign in this respect. Have you had any reaction about it from your members?

MR. GRAHAM: Not from the members -- I have not had any from the members -- but from the advertising, which is not very extensive, we have. We have been advertising in the newspapers, and at the bottom of the advertisement we have placed a slip saying that if anybody cut it out and sent it in we would send them a copy of the Monthly Review and Digest, and so on. We have had a very much better response from that than we ever expected. Many of those clippings have come in, and that indicates that the public is interested.

In the advertising line, too, we have found interest and, I think, value -- although I think it is difficult to trace the value -- in the booth we have had at the Canadian National Exhibition for the last two years. The public has been very interested in that, and there have been many inquiries coming in from that.

MR. KIERANS: Mr. Commissioner, the General may not have had any reaction from his members, but I have had some reaction from my members about the Toronto advertising campaign, and it has been this ---

THE CHAIRMAN: Has it been too aggressive?

MR. KIERANS: The reaction has been this: What the hell is Toronto advertising in Montreal newspapers for?

MR. GRAHAM: We are very broad-minded.

COMMISSIONER BROWN: There is the obvious form

of retaliation, I suppose.

COMMISSIONER GIBSON: With respect to this question of obtaining new clients, apart from the obviously major part played by good salesmanship, what are the other things that count? Is it the research facilities that you have; the bulletins that you put out? Where is the emphasis placed?

MR. GRAHAM: If I may speak as a sort of an outsider, I think what counts is the type of service the customer gets, and the feeling of confidence that is built up by his dealing with a particular person or a particular firm. On the Toronto Stock Exchange tremendous value is placed upon these two factors -- good service in the way of quotations, prompt and efficient execution of orders, and good advice to clients. I am sure it is the same in Montreal. All clients do not like, first of all, the same kind of securities. Just as some people like to shoot crap rather than play bridge, some people prefer to buy a speculative issue rather than something more secure, but whatever field it is in it is the type of service that is given to the investors that I think is most important. I do not know whether my confreres have that same feeling.

MR. STEARNS: It is the development of a personal relationship from personal service.

MR. O'HARA: I think it is the personal contact that does it in the first instance, and after that it is service. If you cannot give the service you will lose your clients.

COMMISSIONER GIBSON: What kind of service do you mean? I can understand the importance of prompt and efficient carrying out of instructions, and so on, but do the firms that specialize in certain types of stocks, for example, put out a good deal of information on them?

MR. O'HARA: I know, for our own part, we have a large statistical department and a large management portfolio department. That has paid us well. In the old days, going back before the depression, you could turn around to a client and say, "Buy yourself some nickel", and he never questioned it. You turn around to the same type of client today and say, "Buy yourself some nickel," and he will say, "Why?" And if you have not got the answer, you do not get an order; so you have to have the answers. Earlier on you asked about firms growing and the increased cost in these growing firms. This is where this comes in: if you do not grow you go back; you cannot stand still. I think that the development of research on the part of most brokers is what has developed the business as it is today.

COMMISSIONER GIBSON: Is this evident in the case of those firms that have not gone very far along this line?

MR. O'HARA: Yes, sir.

MR. STEARNS: He has the list of customers and what their angles are, and he calls them and keeps up to date. He gives more service than just the actual execution of the order, on which there is no charge. He advises them when there is an increase in dividend, and they discuss the merits of continuing the holding or switching of the security.

COMMISSIONER GIBSON: Do firms that make a special effort -- let us say, in the area of metal or pulp and paper stocks -- tend to get a disproportionate

share of that business? And is this a good way of approaching it?

MR. STEARNS: I do not think they necessarily get a disproportionate amount, but they get some kudos, as do a great many other members of the profession whose customers own the same type of security.

MR. SOMERVILLE: There is not any noticeable specialization by industries within the brokerage business, except a very broad one between some firms principally interested in mining and oil securities and the more specific types of investment, but not in pulp and paper like there is in London.

COMMISSIONER GIBSON: You do not feel any signs of that trend growing?

MR. SOMERVILLE: No.

COMMISSIONER HARROLD: One of the characteristics of the industry is a pretty wide fluctuation both as to revenue and as to expense. I think that probably the fluctuation in revenue, as shown in the statistics, is somewhat wider than the expenses, percentage-wise. There seems to be a fluctuation in revenue from year to year, as much as 45 per cent in some years. Have you any ideas as to what factors contribute to this? For instance, is the trading more active in a falling or in a rising market? And what else might this very wide fluctuation be due to?

MR. GARDINER: Is your question, first, on revenue?

COMMISSIONER HARROLD: First on revenue.

MR. GARDINER: Rather than expenditures?

COMMISSIONER HARROLD: Yes.

MR. GARDINER: Well, our revenue is naturally relative to the volume of transactions on the stock exchange. This fits in with the economic conditions of the country. Particularly seeing that many of our stocks are in the mining and oil business, I would think the world situation, based on oils and metals, is very important. The price varies from year to year as a result. This is obvious. As the price of, say, copper goes up there are going to be more marginal mines in production and more interest and more trading. As the state of our economy advances and companies become more profitable there is greater volume and more interest -- and more interest from outside the country in these circumstances. My guess is that the volume exists more in a rising market than in a declining one.

COMMISSIONER HARROLD: Does this account for such a large fluctuation, even from year to year?

MR. GARDINER: Oh yes. I am surprised, in fact, that the fluctuations are not even greater.

COMMISSIONER HARROLD: As to revenue, there is more trading in a rising market?

MR. GARDINER: Yes.

COMMISSIONER HARROLD: And on the expenditure side it does not fluctuate as widely?

MR. GARDINER: Yes.

COMMISSIONER HARROLD: It is more rigid, in other words. What happens as to personnel? Are

there very many changes in personnel?

MR. GARDINER: As far as I am concerned, this industry is a fixed-overhead industry. It is most difficult to adjust your personnel in relation to your business; there will be fixed costs. Your remuneration, of course, is going to change in relation to your sales, because most salesmen are paid a percentage of the earnings they contribute to the firm. But our office overheads remain the same -- rents, leasing wires and salaries of personnel. Well, there is some fluctuation, but certainly in the smaller firms, particularly, there is practically none. For instance, in our firm our overhead will be the same practically every year, as it is relatively a smaller firm.

COMMISSIONER HARROLD: You mentioned the salesmen being on a commission basis. Is this the only group that is on a commission basis, salesmen -- or are there others?

MR. GARDINER: They do not have to be. Of course, there are salesmen and bond salesmen. I mean, there are customers' men and bond salesmen; we differentiate. I would hazard the guess that most customers' men are paid on a commission basis.

COMMISSIONER HARROLD: That is all I have on that point.

There is some information on inventory. Is there any relationship between the patterns as to inventory that the different firms hold in a business cycle in response to either ease or tightness of money,

in the holdings that are held by members of the firm? Is there any pattern to this?

MR. REID: Most brokers would normally have very little inventory, I would think. The individual members of a firm could have their own personal investments, but certainly as members of a firm we trade as agent most of the time.

MR. GARDINER: In the Toronto figures of 70 firms it is over 7 million, and that means the average is only 100, 000.

COMMISSIONER HARROLD: That is a very small part?

MR. GARDINER: Yes, but the large I.D.A. houses are not in this, but I would imagine that in times of tight money the inventory of bonds would be less.

COMMISSIONER BROWN: It might be more!

MR. GARDINER: It might be (laughter).

MR. MARTIN: No bid!

COMMISSIONER HARROLD: The figures show there is more inventory held by some of the members of the Toronto exchange than the Montreal. Is that probably right?

MR. GARDINER: I have not seen the Montreal figures, so I do not know.

MR. KIERANS: Our members have very little inventory.

MR. CRUICKSHANK: It is practically all bonds, and that might be a house which is also an I.D.A. member.

COMMISSIONER GIBSON: That probably explains the statistical point which shows that the Toronto people have far fewer inventories in bonds. A lot of the I.D.A. members would not be in that field?

MR. GARDINER: That is correct.

COMMISSIONER GIBSON: Toronto have much larger stock holding?

MR. GARDINER: They are larger firms.

COMMISSIONER GIBSON: But the volume is not five times?

MR. GARDINER: No.

MR. SOMERVILLE: It is still not a very large figure.

COMMISSIONER GIBSON: Is it very much?

ME. GARDINER: Do you mean the inventory during the year?

COMMISSIONER GIBSON: Yes.

MR. SOMERVILLE: About four million, with 70 firms.

COMMISSIONER BROWN: The interesting point is that the trading profits for the 70 Toronto firms reporting in 1961 were about the same as the 45 Montreal firms reporting, and the Montreal firms report carrying less inventory; so, perhaps it is not profitable to carry inventory in some parts of the country.

--- Short Recess.

THE CHAIRMAN: We shall now resume.

I do not know just whom to put this question to, because it is a general question which can be

answered by more than one, probably. When an issue is listed upon the exchange and the stock is traded over a period, I suppose that puts it in a more favourable position in raising additional capital, if it wishes to go to the market for capital. Am I right?

MR. REID: We imagine so.

THE CHAIRMAN: Could you just give us the elementary reasons for that?

MR. REID: You have already a shareholders' list, and the stock is better known and it receives a good deal of publicity from the daily quotations, and usually some firms take some interest in it.

MR. KIERANS: The stock has a greater marketability and you or I would be more willing to invest in buying the stock if the liquidity is there, and therefore it will be attractive to an increasing number of people. The market for that particular stock broadens rather than on an over-the-counter market. In the other sense, where the stock narrows you get narrowing spreads in the stock and, therefore, people are more interested in it.

THE CHAIRMAN: That would have the effect, would it not, of reducing the cost?

MR. REID: Yes, it should reduce the cost.

THE CHAIRMAN: For the reason you have mentioned?

MR. KIERANS: It is very much easier to sell.

THE CHAIRMAN: Another question that is

probably a very elementary one: what are the chief characteristics of a listed stock as opposed to unlisted stocks? I do not know whether there is any difference in characteristic. Why are some stocks listed and other stocks traded as unlisted stocks?

MR. MOYSEY: One of the important factors is the desire of the particular company to have its stock listed. It makes application to be listed, and some large companies, for reasons of their own, have not taken that step. Apart from that, in the broadest generalities, listed stocks are usually larger, stronger corporations who feel there is an advantage to having liquidity provided for their shareholders.

MR. STEARNS: A lot of unlisted stocks cannot meet the listing requirements, and that is why they are not listed, of course.

THE CHAIRMAN: And they are not subject to any control at all, except by the Securities Commission?

MR. STEARNS: Yes, that is correct.

THE CHAIRMAN: They are not under the control of any similar body.

MR. CRUICKSHANK: There is also the question of a listed company having to absorb all the cost of transfers of shares; in some companies this is quite an expense and they would not usually wish to take that on.

THE CHAIRMAN: I understand that the Toronto Stock Exchange has in mind the possibility of the development, some day, of a national stock exchange. I do not know to what extent the enthusiasm reaches

the Montreal Stock Exchange for that proposition -- I suppose, depending on where it should be situated. Perhaps you could elaborate on that proposal to some extent?

MR. KIERANS: It is their proposal and not ours!

THE CHAIRMAN: Could you give us some idea as to what you mean by a national stock exchange? What is the practical organization of it? I suppose there must be branches in different places. How would it operate?

MR. GRAHAM: The word "national" is rather a misnomer, as we say in the brief. Perhaps a more accurate expression is"pre-eminent exchange." We believe that is a good and desirable thing, but we also believe there must and always will be regional exchanges.

THE CHAIRMAN: Separate and independent, do you mean?

MR. GRAHAM: Yes, that is right, sir. We believe that by having a pre-eminent exchange-- which some people might refer to as a "national" exchange -- the larger exchange will create better markets and give better service.

In the United States the New York Stock Exchange is sometimes referred to as the National Stock Exchange, but it is not. It is the pre-eminent exchange in the United States, but there are other very good sized exchanges -- in Chicago and on the West Coast, and throughout the country. In England it is the London Stock Exchange that might be referred

to as the National Stock Exchange.

So that what we say is that a pre-eminent exchange -- which will provide better markets and be able to fill orders of all sizes, and so on -- is desirable. There may be arguments against this, but we do not feel that one exchange can operate efficiently with more than one floor, because up to the present time the execution of orders has been the result of a direct contact between buyer and seller, and this, as far as we can see now, will continue and should continue.

MR. GARDINER: This is very true. There are obvious savings from having one large pre-eminent exchange. The type of equipment used is very expensive, and with this you have greater volume, your facility is the same and you do not have this duplication of overheads. You have one governing body, one staff and one president; and these inherent savings, I feel, could be passed on to the public.

THE CHAIRMAN: But you visualize a number of other exchanges which are not as pre-eminent but which would be independent of the so-called national exchange?

MR. GARDINER: Yes, I think, handling local situations at very low cost.

THE CHAIRMAN: How would you bring about this national exchange?

MR. GRAHAM: It comes about by evolution. More and more business is attracted to one exchange, perhaps because of the type of service that exchange

gives over a wide area, by means of good and prompt quotations, by members having branch offices throughout the country, and so on, and by having memberships in places other than the location of the exchange itself. In other words, if the pre-eminent exchange is in Montreal you may have members in Vancouver, Edmonton, Winnipeg, Halifax, Toronto, and so on, all of whom would be siphoning business into the central marketplace. This would result in a better deal for the buyer and seller of the service, because you would have this broader market and more orders coming in to buy and more orders coming in to sell.

THE CHAIRMAN: Having at the moment two stock exchanges which are pre-eminent -- I am not going to suggest that one is more pre-eminent than the other -- it may be one week one, but the next week it may shift to the other.

COMMISSIONER BROWN: Let us take a hypothetical assumption and make Vancouver the one you are talking about!

MR. GRAHAM: Why not?

THE CHAIRMAN: That might solve the whole problem.

MR. GRAHAM: We have three exchanges, if you look at the two Montreal exchanges as one unit, which a good many people do, and you add the Canadian and Montreal exchange together. Beside that you have the Toronto exchange which, as you know yourself, sir, consisted of two exchanges prior to 1934, just as the Montreal exchange is now in two parts. We have

amalgamated and we have the two types of stock in one exchange. We have different listing requirements for the mines and oils, just as in Montreal they have different listing requirements for the Canadian Stock Exchange. If you take the two exchanges in Montreal and the exchange in Toronto, it does just happen at the moment there is more volume in Toronto. This may change. Over the years we will have to see what happens -- whether Montreal becomes the pre-eminent exchange or Toronto.

COMMISSIONER LEMAN: It is possible to imagine, with technical progress in communications -- closed T.V. circuits and all that sort of paraphernalia -- it is not impossible to imagine that some day there could be one exchange with a number of floors.

MR. GRAHAM: My imagination, I am sorry, cannot go that far. I do not see how you could put an order into a machine -- although, true, everything seems possible these days -- and have it executed without this percentage bid and asked business. I do not know of any place where it is done, and I do not see how it can be done.

MR. CRUICKSHANK: It is done on the Pacific Coast, I believe.

MR. SOMERVILLE: I do not think that is so. There is a thought in the industry that you could, by technical means, overcome distance in this way; but, as a matter of fact, it is very difficult not to have more than one market in the same security on one floor. In a very busy market you can have

two people trading at two different prices on one floor, and they are within sight and sound of each other. It is difficult to see how television, or whatever your imagination could bring up, could overcome that problem. On the Pacific Coast stock exchange what they have done is to put the specialist books in San Francisco and Los Angeles together, whereby the specialist in Los Angeles can assist the specialist in San Francisco to put their books together to make an offer as two firms. Most of this is in New York stocks, but it is not having the two floors in the market in one stock. Where they amalgamated they divided the list and San Francisco stocks are traded in San Francisco, and Los Angeles stocks in Los Angeles. The two floors are linked by open wire, but it is for the purpose of putting the specialist books together.

MR. GRAHAM: You might have one exchange operating in Toronto and Montreal, for example, with the two floors. The only way I could see it working is if certain stocks were listed and traded on the Toronto floor and other stocks listed and traded on the Montreal floor.

MR. GARDINER: Then there is a duplication of cost; every firm must have two wires and two traders. It does make economic sense to have one floor with one set of communications to that floor rather than duplicating them in more than one floor.

MR. GRAHAM: At the moment we are discussing the introduction of a quotation system which will cost

$750,000. If you had two sets somebody would have to pay for that additional cost.

COMMISSIONER LEMAN: Let us not get lost in too much imagination on what may happen in the future, and without having an exchange of several floors, technically you could have a notional exchange from the point of view of management and of the regulations and of the listing requirements -- an exchange policy on all these markets -- and this could be managed from one point in Canada; that is a different sort of problem, isn't it? That is quite possible; there are no technical difficulties there, are there?

THE CHAIRMAN: Well, at the present time as I recall it there are certain differences between the practice in the Montreal exchange and the Toronto exchange as to listing requirements and a number of other things of that kind. Does that raise many difficulties?

MR. GARDINER: I think it does.

THE CHAIRMAN: For uniformity would it be more desirable?

MR. GRAHAM: I think so.

MR. REID: There couldn't be too much difference in the listing requirements; I am not aware of too much difference in the listing requirements except that the Montreal market is an investment market, the Montreal Stock Exchange. The Canadian Stock Exchange is basically a speculative market, although there are some investment grade stocks listed there, but basically the Montreal Stock Exchange is for investment grade stocks and it is not for primary distribution; the shares have to be sold elsewhere and then traded afterwards on the

exchange.

THE CHAIRMAN: The Canadian Stock Exchange does engage in primary distribution?

MR. REID: Yes, the Canadian Stock Exchange does.

THE CHAIRMAN: And both functions are carried out by the Toronto Stock Exchange?

MR.KIERANS: I would like to make an amendment to the fact that the Canadian Stock Exchange does engage in primary. It does, except that authority has to come from the Securities Commission and not from the stock exchange itself, the approval of the underwriting, and so on, must be approved by the Securities Commission; we don't take any part in that. If the Quebec Securities Commission says that an underwriting is approved, we will then permit the sale of it, but we permit primary distribution on the C.S.E. only.

THE CHAIRMAN: On the Canadian?

MR. KIERANS: Yes.

COMMISSIONER BROWN: Do you have complete control over this in the sense that if the Quebec Securities Commission approves it ---

MR. KIERANS: No, we don't have to do it at all, and often don't.

COMMISSIONER BROWN: That wasn't clear.

MR. KIERANS: No.

THE CHAIRMAN: Will the difficulties arise, from your point of view, from the different standards applied in the listing of securities on the exchange

between Toronto and Montreal?

MR. KIERANS: We find ourselves in the embarrassing position sometimes on the Montreal Stock Exchange of having to turn down applicants that have been accepted by the Toronto Stock Exchange, and we will say to the applicants, "Well, we will accept you for the Canadian but not for the Montreal", because we have the two systems where ---

THE CHAIRMAN: Quite, but I am looking at your position as being one of a combined position of the Montreal Stock Exchange plus the Canadian; we speak of them as one, although they are not physically?

MR. KIERANS: Yes, I can see what you mean.

THE CHAIRMAN: From the point of view of the subject matter we are dealing with we will treat them as one.

MR. KIERANS: Yes.

THE CHAIRMAN: But there are different standards applied and different information required or not required on the listings of the Montreal or the Canadian exchange, or both. Isn't that an imperfection?

MR. KIERANS: I would like to know in just what area there are the different standards?

THE CHAIRMAN: Well, I don't know.

COMMISSIONER BROWN: Could we pursue this further on the question of somebody whom you will accept for the Canadian Stock Exchange but not for the Montreal Stock Exchange. I think there is a little difference in that the membership is not entirely synonymous; there are a large number of overlapping ones,

but it is not entirely the same group. What happens in this situation where we have to turn somebody down from Montreal but are prepared to accept them from Canadian?

MR. KIERANS: There could be a case when we would require higher assets for Montreal; sometimes they refuse, and we have a number of these cases.

THE CHAIRMAN: What I had in mind was not so much that ---

MR. KIERANS: As at the other end?

THE CHAIRMAN: As the difference between the Toronto and the Montreal -- including the Canadian -- and the standards that apply and the qualifications for listings, and that sort of thing, which apparently there are some difficulties in, but I don't know what they are.

MR.REID: I don't think that would be a problem. We do have some stocks on the Canadian which wouldn't be approved -- speculative stocks on Canadian -- which wouldn't be approved on the Toronto Stock Exchange because this is basically a speculative market and we would like to see trading come to the Canadian rather than be done over the counter. Apart from that I don't know of any.

MR. KIERANS: We do take smaller industrials on the Canadian than might qualify for Toronto and we give more consideration to the smaller industrials than they do, but everybody realizes that the Canadian is a junior exchange and this is the purpose of having the two exchanges.

COMMISSIONER MACKINTOSH: Do you take any on the Montreal exchange which wouldn't qualify on the Toronto?

MR.KIERANS: I couldn't conceive that, no.

COMMISSIONER LEMAN: What would happen if a company which listed on the Montreal exchange, for reasons of its own said it would also like to be listed on the Canadian?

MR. KIERANS: Well, it can't.

MR. MARTIN: We wouldn't allow it.

THE CHAIRMAN: Well, what I had in mind was this; would there be any advantage to be gained if the two exchanges -- or, in this case, the three exchanges -- pooled their ideas as to the qualifications for listing and agreed with one another on certain exact conditions for listing and adhered to that; would that be an advantage or would it be worth attempting?

MR. KIERANS: No, that would not be an advantage. This is where you lose all the flexibility which we have in the Canadian Stock Exchange. For example, if a small firm wants to go public and it has a limited distribution, but it is a good firm and has been in operation for years, but it is not large enough and for tax reasons they want to go public. They couldn't qualify on the Montreal or the Toronto Stock Exchange, but could qualify on the Canadian. We accept the smaller shareholders and accept the lesser amount of assets and perhaps even -- yes, use the small earnings referred to, and that exchange is geared to filling a need.

THE CHAIRMAN: Is there any reason why that exchange should be separate from the Montreal?

MR. KIERANS: Oh yes, we want to make it quite

clear ---

THE CHAIRMAN: That there are two kinds of business, the underwriting business -- they mix it all up and you separate it, but is there any advantage, are you any stronger as a result of that division, that separation of the two types of business?

MR. KIERANS: Well, we haven't got the Royal Bank right next door, and say that we have the Royal Furniture Company or a very small firm in the listing, and we want the people to understand that when they look at one exchange that this is what we mean, the finer grade industrials and mines and oils of Canada; when they look at another, these are the more speculative ones, they are the smaller companies, and this is a whole different way of looking at it.

THE CHAIRMAN: Of course, that is so in Toronto when they have the standard exchange; that was a mining exchange and they eventually amalgamated. I don't know whether you would think that has done harm or not, but all I am trying to get the picture of is if there are any advantages in having more uniformity in the whole business as between the two major exchanges?

MR. KIERANS: No, I don't think they could be uniform, and I want to come back to the ---

THE CHAIRMAN: In Toronto why don't you have the two kinds of exchanges?

MR. GARDINER: Of course, I think we think we should be uniform.

THE CHAIRMAN: What is the advantage of having the two types of businesses combined in one exchange in-

stead of having two separate exchanges?

MR. GRAHAM: You have one trading floor, for one thing ---

MR. REID: You can have two exchanges on one trading floor to save your costs, if you want to do that. We can't do that in our building, but if we had a new building we would have that.

MR. GARDINER: Some firms have one trader, and if you have two floors you have to have two traders.

MR. REID: I think one of our main arguments is that we feel the reputation of the Montreal Stock Exchange has some merit in being an investment market; we don't want to dilute that reputation by trading speculative stocks on the same exchange and we believe there is an advantage in that, particularly in Europe and the United Kingdom the reputation of the Montreal Stock Exchange would suffer if we started trading speculative issues on the same floor and listing them in the same column.

MR. KIERANS: I wonder if you would give the Toronto Stock Exchange a chance to say why --

THE CHAIRMAN: I want to hear all you have to say.

MR. KIERANS: -- why they thought -- and this is quite an important point because it has been suggested that eventually one exchange might emerge as sort of a national exchange.

THE CHAIRMAN: Because of this element?

MR. KIERANS: But I don't think that will ever happen now. I think you will have three exchanges

in this country because I think this is the kind of country that we have here.

There are three or four different economies in Canada, and while you can make it a political union, you haven't been able to make it an economic union. I think we are looking at the exchange probably in a very narrow sense when you say that you can save money or costs, or this or that kind of installation, but the costs -- even the benefits, if you see the benefits properly, which you get out of diversity are worth the cost.

Now, there is another effect; you might have a better market if you had a single stock exchange in Kingston or Ottawa, or whatever it might be.

THE CHAIRMAN: Kingston would be an ideal place because it is less objectionable than any other part of the country!

MR. KIERANS: On the other hand, you have a broad market anyway because you have arbitrage between the exchanges and you are unifying the three markets, but this is not really the important part of what an exchange can do. The exchange has to play its part in all this area, this economy, and in our case it is Quebec and the maritimes. What are the needs of our particular economy? We have to fit ourselves into the aspirations and the functions of the east.

In the same way Vancouver has to fit itself into a completely different economy out there, and if all the differences you have in British Columbia and Quebec are centralized, this will extend to the different

economic needs and problems of these areas.

We feel that until Toronto or someone else proves that they can have as complete a grasp of all of the problems in Quebec or British Columbia as they have of their own, I don't think they have any argument to press for a national exchange.

We at the present time have arranged with the Quebec Chamber of Commerce -- we have a problem about trying to improve the knowledge, the economic knowledge and the financial knowledge of ordinary Quebec merchants and citizens, so we are distributing a series of about 30,000 booklets on how to analyse a balance sheet and an operating statement to the 30,000 members of the French Chamber of Commerce. We go out and talk to family corporations about their problems. We don't care who gets the underwriting, but we are trying to make ourselves a much larger part of the economic structure of Quebec than just providing the floor. The only argument I have offered here is you would have a broader market, and as long as it is arbitraged it doesn't matter whether you have a broader market.

THE CHAIRMAN: I was coming to that in a moment. If there were something of the nature of a pre-eminent national exchange would that eliminate arbitrage?

MR. KIERANS: If we had one exchange there wouldn't be arbitrage.

MR. REID: You have the foreign international arbitrage.

THE CHAIRMAN: I mean as between exchanges.

MR. KIERANS: You eliminate it between the Canadian stock exchanges, but between New York and Toronto you don't eliminate arbitrage, and I don't see why people want to eliminate arbitrage.

THE CHAIRMAN: Could you give us the advantage of arbitrage? I can understand that it does have the effect of a resulting in the uniformity of prices between the two exchanges. Is it the best way of accomplishing it?

MR. KIERANS: Well, there is no other way.

THE CHAIRMAN: Not as long as the exchanges are independent and accept this.

MR. KIERANS: As long as there are differences of either time or place you will have arbitrage.

THE CHAIRMAN: I see.

MR. KIERANS: The difference doesn't have to be a place, it doesn't have to be a time, it can be either; as long as there is a difference you will have arbitrage. Where you have three supermarkets in one area you have arbitrage; somebody else's roast beef is higher and somebody else's ham is lower, and you have arbitrage.

COMMISSIONER LEMAN: No one comes to any disadvantage?

MR. GARDINER: Oh yes, this is an old thing to Montreal! We feel it results in a higher cost to the client because the person who does the arbitrage makes the profit; if there was one exchange the bid and the ask would be the same for everyone in the country, but when there are other exchanges you have to put it on one exchange at one price and sell to someone else at another price, so the ultimate customer is paying more

than if he was dealing with one exchange.

THE CHAIRMAN: It doesn't always follow when somebody makes a profit that necessarily the customer loses?

MR. GARDINER: It does as far as arbitrage is concerned.

MR. SOMERVILLE: Providing he has access to both.

MR. GARDINER: If there is only one, my friends want all the work!

COMMISSIONER BROWN: Surely the customer has access to the market and knows which is to his benefit, has he not?

MR. GARDINER: Not really, because you can ask the Montreal people why they want arbitrage and they say it is because if they don't have it the business would go to Toronto, and they don't want Toronto to have the business.

COMMISSIONER BROWN: Let us deal with this situation.

MR.KIERANS: We will start talking about arbitrage in a minute.

COMMISSIONER BROWN: Could I ask a question; if the bid in Montreal is higher than the offer bid in Toronto, surely the Toronto broker has the option of selling at a higher bid in his client's interest, and then why doesn't he accept it, why does he let somebody get in between.

MR. GARDINER: Communications are not good enough.

COMMISSIONER BROWN: Somebody gets in between?

MR. GARDINER: They have direct wires and know, but if a small firm in Toronto doesn't have ready access, doesn't know it is higher -- the arbitrage dealer knows it because he has a direct phone between the floors, but when a small office puts an order in in Toronto it doesn't know what it is in Montreal.

COMMISSIONER BROWN: Isn't this a question of communication between the exchanges?

MR. GARDINER: And another problem is -- and I think it really happens this way -- this is an argument why you don't need arbitrage because you could do this. I think another argument is that a small firm doesn't want to give up that much commission; they don't have an office in Montreal and they must pay half of the commission out and therefore their salesman doesn't get as much. There is a lot of pressure to deal in your own market, and whether this is right or wrong, this happens.

COMMISSIONER BROWN: This applies to the Montreal broker as well; why should he give up part of his commission to put the order in Toronto any more than the Toronto broker should give up a portion of his commission to put it in Montreal?

MR. GARDINER: This is why we feel there should be one exchange.

MR. KIERANS: This is a very minor problem anyway in terms of the costs; we have three firms in Montreal who are engaged in the arbitrage business, one of whom is practically out of it, and they don't make

that much money or very much money from their arbitrage operations. The difference between Toronto and ourselves as far as arbitrage is concerned is that they don't understand what arbitrage is!

COMMISSIONER BROWN: Could you give us a one-paragraph definition?

MR. KIERANS: All I want to say is this. Toronto concentrates on the fact that an arbitrageur makes one-eighth out of the difference between the two markets, but this is not what arbitrage is. Arbitrage means that while one man will make one-eighth out of that first transaction, nobody will make -- 200 people will not make one-eighth thereafter.

We keep thinking in Montreal of the first to the 200th transaction and think of the one-eighth this person has made. What has he done? He has moved securities from one group to another and he has equalized the supply and demand by this one transaction. If he didn't do it these transactions would keep on taking place in Toronto and Montreal and the gap would begin to widen, it would be one-eighth or one-quarter on those markets, but how does the arbitrageur come in to destroy a difference in prices on a stock, or whatever it may be; he makes it by looking around for another difference, and that is the way he works; he sees the difference and irons it out and it is not the one-eighth on the first transaction, it is the one-eighth that is not made on the continuing transactions thereafter.

Anyway, it is silly to talk of discontinuing

arbitrage between Canadian markets because, for instance, as Mr. Leman's stock is listed in New York, about 80 or 90 of the best industrials are listed in New York, and if you discontinue it between our markets all you do is destroy equally the three Canadian markets, Vancouver, Toronto and Montreal, because then the broker will go down to New York -- if our broker can't get a fill for his stock, he will go down to New York to pick up the balance of 300 or 400 and presumably the Toronto broker will help by sending that stock down to New York to fulfil the order for Montreal which he can no longer get directly, and as a result of that both of us are building up the New York Stock Exchange in aluminum, and they already have the lion's share of the business anyway, so I don't say that if an arbitrageur makes one-eighth on one single transaction we should turn upside down the whole exchange system.

COMMISSIONER LEMAN: May I ask how it works in the States? They have a number of independent exchanges in the States; does arbitrage operate between all of them?

MR. KIERANS: No. New York doesn't permit them.

MR. SOMERVILLE: The point is that in the United States it is recognized in the industry and in the Securities Exchange Commission that a client is entitled to a fill in the best market, and therefore a client can check the price of his fill on the Pacific coast against the national market on the time tape, and therefore there is no possibility of any price differentiation developing. It is true the specialist on the Pacific coast has to lay off whatever he buys from the client on the national market, but that is the risk involved.

COMMISSIONER LEMAN: So, in the United States they put the onus on the broker to find the best place to fill his client's order.

MR. SOMERVILLE: That is correct, and that is what we believe should be true in this country.

COMMISSIONER LEMAN: Who polices that, for the individual buyer or seller of stocks would not ordinarily check all this.

MR. SOMERVILLE: Oh, he certainly would.

COMMISSIONER LEMAN: It takes a very sophisticated buyer to go and check this.

MR. SOMERVILLE: It is not very difficult to do if you have a New York paper with the highs and lows against your fills on a day. It is not as difficult as it might appear. You do not have to know in half a minute what the prices are.

MR. REID: Do you mean to say that when an order comes into New York they check Boston, San Francisco, and so on?

MR. SOMVERVILLE: Oh, no.

COMMISSIONER BROWN: At some stage there has been an assumption that this is the best market.

MR. SOMERVILLE: Yes.

COMMISSIONER BROWN: Going back to my hypothetical situation, from the point of view of a seller the best market is where he can get the most for it, and if somebody in Montreal is bidding higher than he can sell it for in Toronto it is in his interests to sell in Montreal.

MR. SOMERVILLE: This is normal practice, but if you have a market like New York with 90 per cent of the trading in the whole country, you are not going to check, say, Boston.

COMMISSIONER BROWN: How do you believe you can get rid of arbitrage in Canada unless you have one exchange?

MR. SOMERVILLE: We believe this will come about by the evolution or development of a more efficient and serviceable stock exchange.

COMMISSIONER BROWN: But I think the point arises: how can you establish which exchange abolishes arbitrage in Canada?

MR. SOMERVILLE: Well, we had a try at this but we were not successful.

MR. GARDINER: There has been no arbitrage in oil between Montreal and Toronto for years.

THE CHAIRMAN: How did that come about between Toronto and Montreal?

MR. GARDINER: Because of our own regulations

for many years, 30 years or more.

MR. SOMERVILLE: 37.

MR. GARDINER: This is nothing new.

MR. KIERANS: They got control of the market in days when we were not interested in mines and oil, and they have kept the market. But the control of the industrial market is a completely different kettle of fish. There there are really solid and expanding markets in three areas of the country, and you cannot abolish it without disturbing the exchange system as we presently know it.

MR. O'HARA: You say there is no arbitrage in mines, but it is a funny thing that firms trade stocks on five cents or ten cents when the commission will not cover it. So, in actual fact, there is a type of arbitrage in mines.

MR. SOMERVILLE: Yes.

MR. GARDINER: Well, they are breaking our by-laws and they had better not be caught.

COMMISSIONER GIBSON: Mr. Chairman, Mr. Kierans gave quite a full statement of the reasons why he thought there had to be more than one stock exchange in Canada, regional differences and contacts, and so on and so forth. What is the Toronto answer to the statement Mr. Kierans made? Is it possible to have one stock exchange in such a large country, one pre-eminent exchange?

MR. GRAHAM: I believe it is quite possible and I firmly believe that this will come about and that it is coming about that there will be one pre-eminent stock exchange. However, as I said, there

will always be other stock exchanges, regional exchanges, and I agree with Mr. Kierans that there must be more than one floor in Canada. There must be a floor in Montreal and in Vancouver, and perhaps it does not seem so necessary now but in time it may be that there must be one in Wibnipeg. We have a small one there now, but as the country develops these regional exchanges must be established or continued in their growth. It is the situation which prevails in the United Kingdom where they have regional stock exchanges in Birmingham, Liverpool, Manchester, and so on, but they deal principally in local stocks. They are not traded in the London market, and this has been the natural evolution in other countries. In France, for instance, I think they have recently combined the two big exchanges in Paris into one bourse, and if they have not already closed out the regional exchanges they have imposed certain restrictions on them to the point where the regional exchanges cannot list any stocks that are listed on the Paris bourse.

COMMISSIONER GIBSON: What do they do in Australia? That country has the same basic problem we have in that there are two major centres of financial power.

MR. GRAHAM: Their situation is the same as ours in Canada. I was talking last week to a member of the Sydney Stock Exchange and he said, "We have the same situation in Australia as you have here." He said that they had a large exchange in Melbourne and a large exchange in Sydney, and that the business was

divided between the two. I believe that the Sydney exchange is the larger one, but I am not sure about that. In any event, they have a similar situation. Whether Sydney will develop into a pre-eminent exchange or whether they will continue as they are, I do not know. But this is a trend which has gone on in all countries where they operate stock exchanges, and we feel that the same trend is developing in Canada and will continue to develop. I do not want anybody to think, however, that the Toronto Stock Exchange ever believes there should not be a stock exchange in Montreal. It seems that there has been such an impression given.

MR. KIERANS: If you followed General Graham's argument it was that we should be a regional exchange, but he told us about regional exchanges in other countries and described how in effect these exchanges may go out of business. So, this is a two-step thing. There is another point I cannot see about the Toronto approach, and that is that if there were a regional exchange in Montreal which disappeared after a suitable period of time, it would cost the Toronto Exchange a considerable proportion of their volume, and similarly if the same thing happened in Vancouver, for Vancouver and ourselves contribute materially to the Toronto volume. Now, I cannot see anyone making the effort we do in the province of Quebec, or in eastern Canada, to awaken people to the advantages of buying equities, stocks, and so on, -- I cannot see this happening after the exchange disappeared. As a matter of fact, I can see a gradual dwindling of interest in the whole idea of

equities and securities. I cannot see French-Canadian people ever becoming accustomed to this without their own exchange. I mean to say, our country is just different, and that is all. Anyway, this trend is not established everywhere. There is a fight going on in Germany now, which is the kind of fight I would like to see in Canada. There is a struggle between Frankfort, Dusseldorf, Munich, three or four centres, all vieing to become the financial centre of Germany to replace Berlin. They are competing with each other to the advantage, I would suggest, of the investing public.

MR. BROWN: I could suggest a neutral centre for solving all this.

COMMISSIONER LEMAN: If you want to think of the service to be given to customers or traders, what we should be looking for basically is that if I want to sell stock I should be entitled to the best price that can be found anywhere.

MR. GARDINER: That is right.

COMMISSIONER LEMAN: So, theoretically, even if a stock were traded internationally in Amsterdam, London, Philadelphia, Vancouver, and so on, somebody should endeavour to see that I get the best price.

MR. GARDINER: That is right.

COMMISSIONER LEMAN: My point is this. Does not arbitrage contribute to this, either across the borders or from one floor to the other, and so on? Does it contribute to giving me the best price?

MR. GARDINER: May I answer that question? The Toronto Stock Exchange, at least the members, have

not said that we should not have international arbitrage. It is a question of communication. Certainly arbitrage does contribute when communications are not good enough. We feel that communications now between Toronto and Montreal are such that every Montreal member and every Toronto member should have access to each other's markets. We do not feel communications are good enough between Toronto and London, New York, San Francisco or Paris, so we say that in order to check all these markets that international arbitrage is a necessity and does result in the best price. Our feeling is, however, that where communications are good enough then the client deserves to be filled on the best market.

MR. KIERANS: Which would mean that if Mr. Leman wanted to buy aluminium, we should put most of our orders on the New York market.

MR. GARDINER: Yes.

MR. KIERANS: But we are not.

COMMISSIONER BROWN: Does not this policy work between Montreal and Toronto, that where the Montreal bid is better than the Toronto bid and an order comes through a small Toronto broker he gets the Montreal bid?

MR. GARDINER: Yes, he does.

COMMISSIONER BROWN: And he gives up part of his commission.

MR. GARDINER: Of course.

COMMISSIONER BROWN: A broker should be operating in the best interests of his client even at the expense of giving up part of his commission.

MR. GARDINER: Yes.

MR. KIERANS: You have a serious problem in that if you eliminate arbitrage you are in effect killing the small, individual firms located in Vancouver, Montreal or Winnipeg, for you are making it extremely difficult for them to compete with the national houses. You are trying to build a single stock exchange which has the effect of ironing out all the small firms across the country that understand their own economic climate and have a better grasp of their own problems than would the national houses.

THE CHAIRMAN: Perhaps we have had sufficient discussion on that subject. As to listing requirements, is there any situation arising as a result of differences between some of the listing requirements between the two exchanges, that is, the listing requirements of certain types of stocks might be less onerous on one than on another, and might attract business, or is there nothing to that suggestion?

MR.CRUICKSHANK: You have your difference, as we said before, in that on the Canadian exchange you do not have to pay for the transfer fees and your listing fees are much smaller.

MR. KIERANS: I read in the transcript of oral testimony given, or in a brief submitted to this Commission -- I think it was from the I.D.A. -- that they thought the exchanges competed in listing requirements. After I read that I went to the secretary in charge of this and I said, "Do we compete on listing requirements?" What I meant was the actual requirements and not the financial requirements, and so on. He said, "No, we

don't.". We will accept different listings but it won't be of a nature that would tend to make us, well, a low grader.

We have different requirements. If a person said to us, "I don't want to supply such and such information, therefore will you take me?". That is in our requirements. We would not give it up just to get the listing. We do not compete on that basis.

COMMISSIONER BROWN: Each exchange has a separate listing fee now, and a separate sustaining fee. Has there been any thought among the exchanges about getting together and saying, "If you want to list on both exchanges the total will be slightly less if you do it all at once."?

MR. SOMERVILLE: That is a horrible thought.

MR. KIERANS: No. If they want to come to us on a 50-50 deal we will settle for something like that. No, there has been nothing. We are in the business of competing, Mr. Commissioner.

COMMISSIONER BROWN: I think we are all in the business of trying to get the best for the public of Canada.

MR. GARDINER: Right.

MR. KIERANS: And competition will do it faster.

THE CHAIRMAN: Yes, I was going to suggest that generally competition produces the best.

MR. KIERANS: Yes, competition certainly produces the best.

MR. GRAHAM: Sometimes, but not always.

THE CHAIRMAN: As to membership requirements

on the stock exchanges, first of all, of course, a person has to have a seat, and he has to have enough money to buy this seat, and he has to be accepted by the board of governors of the exchange, and he has to be at least 21 years of age and a British subject. In Toronto he must have three months' experience. Is it also that in Montreal? Those are the qualifications. Applicants can be rejected by the members of the exchange. It is pretty well a closed membership. The number of members on the exchanges in both places have not been increased, have they?

MR. REID: There has been no need to increase the number of seats.

MR. BROWN: Is there anything to be said for some broadening of the qualifications?

MR. REID: Lowering of the qualifications?

MR. BROWN: I did not say lowering. Perhaps three months' experienced could be broadened.

MR. REID: I do not think that is here nor there, and I do not think I can speak about it.

THE CHAIRMAN: I suppose that was put in a long time ago.

MR. STEARNS: Those are the bare minimums. In some cases that would not satisfy all qualifications. There are cases where men of a great deal of experience, men such as chartered accountants, lawyers, bankers, have changed their jobs and have gone into the brokerage business, and it has been felt that there should be some ruling as to time. Generally speaking three months is considered perhaps the maximum in some of these

cases, whereas in others it is very much of a minimum.

COMMISSIONER BROWN: Is there anything to be said for a larger membership in view of the growth of the economy and with the growth of business?

MR. KIERANS: If you look at the profit statements for the group as a whole, there is not that much money to be made in the business. I know this is Mr. Cruikshank's responsibility more than mine. He has to keep a close check on the financial positions of a number of our firms, especially the smaller ones, and there just isn't that much money to be made in the business.

COMMISSIONER BROWN: A few minutes ago you talked about opening up competition. How about opening up your membership so that people who have financial backing and are prepared to pay a certain price can always get a seat?

MR. O'HARA: I do not know about Toronto, but I know that in Montreal there are a number of seats held in trust that are not being used, and if people want to buy them and open up business there is no reason why, providing they qualify, they should not get a seat. However, there is not that big a demand for seats that to suggest to us that the number of seats should be increased.

COMMISSIONER BROWN: Perhaps the price is too high.

MR. REID: The number of seats has actually been increased by permitting attorneys to trade, so that a firm instead of buying another seat can appoint two attorneys as well as the seat holder in Montreal. I think in Toronto there are five.

MR. GARDINER: Four or five.

MR. REID: This has taken care of the admission of additional members.

MR. KIERANS: Commissioner Harrold brought up the fact that the number of firms has increased by 25 per cent. This has taken up the slack of a number of double seats held. I know that what you want is a lot more people with much sophistication and drive to come into the business, especially in Montreal, but there we ---

COMMISSIONER BROWN: I am not insisting that Toronto should get more.

MR. KIERANS: The way they do it is to go a member firm and ask for admission as partners, and a lot of firms are glad to accept more partners. Serious problems arise when some of the older partners come to the time of retirement, and this is a way of getting into the business. The seat does not really bar people with money who want to come into the business from coming in. A seat can represent 50 partners. I do not know how many partners some firms have, but I know some have 10 or 15 partners.

MR. REID: With all the services that

you have to provide in running a brokerage office today an individual just cannot start out on his own and hope to provide these services without building up an organization. Generally, new members come in through the firms that already have an organization, and the small individual operator is going to have a tough time to do all this work himself in a small way.

COMMISSIONER LEMAN: Have you ever run into periods when the floor traders could not keep up with or handle the volume of orders right there on the floor?

MR. STEARNS: Only at very isolated times. It is very much the exception.

MR. REID: That is a problem we like to have.

MR. STEARNS: I think you should consider the fact that we have the non-member broker who is approved for a one-third commission. Those people are all around the country. They do business, and they have an interest, but they have not the financial backing to become members of either the Montreal or the Toronto Stock Exchange, or to meet the audit requirements which are pretty stringent, in the interests of the public. But, they have a sufficient interest whereby they make a connection with a broker and receive one-third of the commission, with the member broker acting as the agent on the exchange. As we state in our brief, we have looked into this possibility, but it is difficult to broaden this thing out from

the point of view of the question of control, the question of self-discipline and being able to adequately check our staff with respect to the requirements and the financial qualificatins, and so forth.

COMMISSIONER BROWN: I am thinking of it more from the point of view of what extent does the price of a seat depend upon its scarcity value as opposed to its inherent value.

MR. STEARNS: It obviously depends upon scarcity, but I think we have always had some inactive seats.

MR. SOMERVILLE: I think in only one instance in the last twelve years has there been no seat available in the sense that there has been no offering.

MR. CRUICKSHANK: The price does depend upon the volume of business on the exchange.

COMMISSIONER BROWN: The London Stock Exchange, as I understand it, has a kind of a fluid membership.

MR. SOMERVILLE: The membership is a different thing in London. Every partner is a member of the stock exchange, so it is an open-ended kind of an arrangement. The seat has no property value. You do not buy and sell memberships in the same way as you do on this continent.

COMMISSIONER BROWN: Have you considered a proposition akin to the one in London?

MR. SOMERVILLE: I think our system operates as a safeguard to the public and to creditors. It acts as a sort of guarantee. You have to look at these things from a different point of view in order

to see the difference. In London the clearing is different, and the banking behind it is different: It is difficult to talk only in terms of status.

COMMISSIONER BROWN: My question was: Have you looked into this and considered the possibility of widening the membership on some sort of basis like that in London?

MR. SOMERVILLE: Not London.

COMMISSIONER BROWN: London has the system of split commissions. In fact, it gives a better break to the outside brokers than does Toronto and Montreal. By the way, with respect to this question of split commissions the Toronto brief does not include the latest arrangement with Vancouver. Perhaps you would like to make a statement for the record amending that.

MR. GRAHAM: Yes. I think it is at page 31. The draft of this brief was prepared before the arrangement was made, Mr. Brown. In paragraph 60(c) in the second to last line after the word "Montreal" there should be inserted the words "or Vancouver", so that it should read that Montreal and Vancouver are the same so far as this is concerned.

MR. KIERANS: Mr. Chairman, may I ask one of your Commissioners a question?

THE CHAIRMAN: I do not think there is any rule against that.

MR. KIERANS: Mr. Brown ---

COMMISSIONER BROWN: I do not have to answer it, though.

MR. KIERANS: Mr. Brown, do you think that Vancouver would get that concession if Montreal had not granted it first, and what do you think of the value of competition under those circumstances?

COMMISSIONER BROWN: Let me answer your second question first. I made no statement at any time about the lack of value in competition. I am a great believer in competition, and I think that that, perhaps, answers your first question as well.

MR. GRAHAM: We try to be generous, but we find it difficult to keep up with our friends in Montreal.

COMMISSIONER BROWN: Can we go back to listing for a little bit. We were discussing this. I would like to have a little discussion on not only the requirements for listing in the first instnace, but the extent to which a continued listing of a security requires the same information being kept up to date. Now, if you look at the Toronto table at page 97, and at the industrials, you will notice that there must be something wrong with the figures there, because in some years the numbers go up at a faster rate than the numbers of new listings.

MR. REID: There could be two or three stocks of one company.

MR. GARDINER: There is something wrong there.

MR. REID: Some companies list two or three preferred shares and a common share.

MR. GRAHAM: That may be where the discrepancy is.

THE CHAIRMAN: It is the number of securities that we are talking about.

MR. REID: It is the number of new companies, but a new company may list several classes of stock.

COMMISSIONER BROWN: The interesting thing is that in the first two years this difference has caught up, and if you put them together for the next four years it decreases, and I wondered if there was an error in the table, or whether it was just a question of the preferred shares ---

MR. STEARNS: No, one column is the number of companies, and the other one is the number of stocks.

COMMISSIONER BROWN: What about this other question of how closely you watch a company? What is the basis for de-listing a company? Say you start off with a requirement of its having so many shareholders and then the number of shareholders drops below the set figure. Is that stock then de-listed?

MR. CRUIKSHANK: Not unless it is very obvious.

MR. REID: In the case of mergers,and where the number of shares gradually diminishes, we take them off.

MR. CRUICKSHANK: When there is a dropping off so that there could not be a free market then we have to do something about it.

COMMISSIONER BROWN: How often are these situations reviewed?

MR. MOYSEY: Mr. Commissioner, de-listing is not necessarily the other side of the picture from listing. Listing is a privilege and a responsibility

that has high standards, full disclosure being one of them, and one of the conditions of maintaining the listing privilege is that circumstances such as full disclosure continue in perpetuity.

One of the reasons why a stock might be de-listed would be the refusal to maintain those requirements wherein the policy of the listing company would clash head on with the policy of the stock exchange. However, that is a very rare circumstance because the trend of business affairs is towards voluntary disclosure -- the sharing of information with your shareholders. It is a very rare instance that company policy would move in the opposite direction. However, such stubbornness would have to be dealt with.

There are other reasons for de-listing such as where the whole character of the business has so developed to the point where the need to have the shares listed in the public market no longer exists, and in some cases the company cannot even afford to pay the minimum annual fee. Mergers and failures on the part of the company are sometimes basic reasons for requests to be de-listed. But, the stock exchange is not anxious to de-list unless there are excellent reasons.

MR. GRAHAM: Would you like to tell the Commission the reason why? The stock exchange takes the attitude that it is slow to de-list unless there is a breach of the regulations or the requirements of full disclosure, or some other reason, because once

a stock is listed we feel that we have a responsibility to the shareholders of that company, and we feel if it is de-listed that it is a move that is going to affect very seriously the liquidity of the shares and, therefore, prejudice the position of the shareholders. Do I make myself clear?

COMMISSIONER BROWN: Oh, yes.

MR. GRAHAM: Some companies remain on the list even after they have gone bankrupt. We would not list a bankrupt company, but we would continue to list a company even after it had gone into bankruptcy -- and we know of these from reports from the bankruptcy courts -- if there is any possibility of something being done with the assets of the company. A company may be rejuvenated in some way, and we would leave it on in the hope that something will be saved for the shareholders. This is not too much of a liability so far as the Toronto Stock Exchange is concerned because our sustaining fee is only $100 a year, and we continue to publish the quotations and we look after the stock and check the quotations, and so on. That is why we are slow to de-list such companies, the shares of which have deteriorated.

MR. CRUICKSHANK: In the old days, if a directorship asked that their stock be taken off the board, we would do so, but recently we have put in legislation whereby the shareholders must approve of it by a majority of 66-2/3 per cent -- that is approval of their stock being de-listed.

COMMISSIONER BROWN: What if the company

just stops paying its sustaining fee?

MR. CRUIKSHANK: We still leave it on until we get the approval of the shareholders. That is also a rule of the New York Stock Exchange.

COMMISSIONER LEMAN: If you have some such hesitancy about de-listing a stock entirely, would there be any argument against having a special section of the list? YOu pointed out to us earlier that it is of great importance to have a stock on a certain list, and that if it is on a senior list that some prestige follows from that; that there is some guarantee to the public that they are dealing with securities that are real securities. There must be circumstances where the reverse kind of notification should be given to the public, do you not think?

MR. GRAHAM: I think the answer to that, Mr. Commissioner, would be that it is very difficult to draw the line. True enough, if a company is in bankruptcy you might put some symbol opposite its name, or you could put it down at the bottom of the list, to indicate that it was in bankruptcy, but if a company has had a bad year and has lost money it would be invidious and, perhaps, completely unfair to make any indication of that fact in the stock list. This is a case in which the shareholders themselves should know something about the affairs of the company, or the business of the company, in which they have invested, and the same applies to a prospective purchaser. This brings up a question

that may be covered later, as to how far any stock exchange should go in standing in the shoes of the shareholder.

Our contention is that we should go very far in forcing disclosure of information, but once the information is made available it is up to the shareholders to take some action with regard to it. Sometimes we do take action, but this is one of the criticisms that is levelled at stock exchanges -- and I assume it is levelled at all stock exchanges -- by some shareholders who write in and say:" Why don't you do this?" We do not do it because it is the business of the shareholders to do it.

COMMISSIONER LEMAN: Let us look at some other factors of listing requirements. You insist on a certain distribution of an equity before you list it. Do you keep on checking that distribution?

MR. STEARNS: Mr. Commissioner, we are not on the filing of statements at this time, but we do have cases of a new financing and where new disclosures have to be made in our filing statement. If it is apparent from that that the distribution is not as we have wished it in the past then we have put forward requirements as to the distribution by an underwriter in order to effect wider distribution, and that our faith in having wide distribution so that there are not wide fluctuations in the stock is maintained. Perhaps I am getting a little ahead of some other questions.

MR. GRAHAM: To answer this point, too, I

think we have had cases where over a period of years more and more stock of a company will be concentrated in the hands of a few people or, perhaps, in the hands of another company, and where we will get requests from a company to de-list the stock because there are only so many shareholders left and only so many shares outstanding. Before we will de-list, even at the request of the company, we want to be certain that these shareholders who are going to be left are going to have an opportunity of having their shares taken up, or an opportunity of selling them. We usually insist on a good long period of time so that these few shareholders are able to liquidate their holdings.

COMMISSIONER LEMAN: You mentioned an instance of where de-listing is done at the request of the company. We are more interested in those instances where the initiative would come from the stock exchange itself.

MR. STEARNS: We have very rare occurrences, Mr. Commissioner, where we have a so-called shell company, usually a mining or an oil company, whose assets have become worked or pumped out, and the company has gone into another form of business. It has no assets and no property and it may have very little money in the treasury, and all of its authorized capital is issued and the stock has reduced itself to one, two or three cents a share. We have asked such a company to show cause why it should maintain its listing. We do not feel in that case

such a sense of responsibility to the shareholders when there is such a minimal or nominal quotation. Where the directors or the executives of the company cannot show how they can revive that company and make it active and properly finance it we have, I believe, in one or two cases in the last few years removed the stock from the list. That is done at the instigation of the stock exchange.

COMMISSIONER BROWN: Perhaps we can get down to some examples. In the last three years the Toronto Stock Exchange has removed 44 industrial stocks and 54 mines and western oils. Can you give us any indication how and why these new listings came about?

MR. SOMERVILLE: Many of them, of course, are take-overs and amalgamations of one kind and another -- in fact, the majority of them would be of that nature; and ones de-listed because the companies were not able to meet certain continuing requirements, or for disciplinary reasons -- this is the only effective way we have of dealing with listed companies. In the last three or four years these have been in the minority. Prior to that we had quite a rash of them, due to a plague of treasury robbering, and a good many were de-listed for disciplinary reasons -- people who were taking over shell companies and using their assets.

COMMISSIONER BROWN: There were a total of 98 stocks involved.

MR. SOMERVILLE: I would say no more than half a dozen in the last two years.

COMMISSIONER BROWN: Of which sort?

MR. SOMERVILLE: For disciplinary reasons or because they could not meet continuing requirements.

COMMISSIONER BROWN: What are the other 92?

MR. SOMERVILLE: Amalgamations, take-overs, redemption of preferred issues, and so on.

COMMISSIONER BROWN: I had not realized there was that many.

MR. SOMERVILLE: Yes, some years you will notice a decrease in the total listings by reason of that. I would say that in 1962 it may very well be, in this year, from day to day take-overs.

COMMISSIONER BROWN: Have you any comments to make on this question of de-listing?

MR. KIERANS: Mr. Cruikshank can answer that.

MR. CRUIKSHANK: The same reason would apply to the Montreal Stock Exchange and the Canadian, but in this past year I do not know whether the Toronto Stock Exchange have included this in their figures; but we have had a "de-listing" of the unlisted stock on the Canadian, That is, companies who have not wanted to fully list, but we have put them on the list for the benefit of the public in trading. These have all been taken off now.

MR. REID: I think there comes a point in the case of some of these speculative companies when you may feel there is unjustified trading in them and you may want to de-list them because you think the investing public is going to be more hurt than the present shareholders are going to benefit. If you see undue activity in a speculative issue which has no assets and apparently is not going anywhere, you may want to consider de-listing. There have been one or two cases where we have done it for that reason.

COMMISSIONER BROWN: Neither exchange has any regulations on de-listing when they get below a certain price?

MR. REID: It is a matter of discretion, where you have to decide, the board has to decide who is going to get hurt the most.

MR. CRUICKSHANK: That is the speculative cases, not the list.

MR. REID: That is in the speculative cases.

COMMISSIONER LEMAN: There is a related subject mentioned in the Montreal Stock Exchange brief, in paragraph 59, where you talk about disclosure. You suggest that their position seems to be rather weak in this field. You say:

> "But we have serious misgivings that such amendments would prove acceptable to Canadian corporations without some legal suasion."

Would you say that the threat of de-listing --, or, at least, if the initial requirements regarding disclosure for listing were established ---

MR. REID: Let us take, for illustration, the fact we would like all companies to publish quarterly reports of sales and earnings. If we tried to force listed companies into doing this they would be at a disadvantage in comparison to unlisted companies.

MR. KIERANS: That is the handicap of that.

COMMISSIONER LEMAN: But there are offsetting advantages?

MR. KIERANS: Yes. The exchanges could get together and impose very much more stringent requirements on listing corporations. As the Chairman has pointed out, we would have to gauge the handicap we are putting the listed corporations under vis-a-vis a competitor who may not be listed or a foreign subsidiary, or something of that nature. But there is the point of view of the shareholders, and it is probably something we should be doing. But if we required full disclosure -- for example, I think a balance sheet is not a balance sheet unless it has a sales figure in there somewhere -- you have to start somewhere assessing the corporation's activities, and that is with the sales figure. If we imposed this on the listed companies, in the paper industry we have all the Canadian companies listed with us, and it would impose a handicap on them because there is a number of competitors in this country who would disclose nothing at all. We are passing the buck here, really.

COMMISSIONER LEMAN: You would like the legislature to do it because you think it would be a slight disadvantage to companies that are listed or want to list?

MR. KIERANS: Yes.

COMMISSIONER LEMAN: Do you visualize this would cause companies to withdraw that are now listed or that it would merely reduce the number of new companies that would list?

MR. KIERANS: I cannot conceive that a company would withdraw because it has an obligation to [illegible]. The Chairman: could

get lumber and labor; very much more strictly

regulated [illegible] conditions. [illegible]

[illegible], we would have to [illegible] the [illegible]

[illegible] the listed [illegible]

[illegible], not [illegible]

[illegible] or something of that [illegible]

[illegible] point of [illegible] and [illegible]

[illegible] according to should be doing [illegible] we

[illegible] -- [illegible]

[illegible] to [illegible] these [illegible] it was

a [illegible] in these [illegible]

[illegible] activity, [illegible]

[illegible]. The [illegible]

[illegible], in the [illegible] industry [illegible]

the Canadian companies listed [illegible], and [illegible]

[illegible] on them [illegible] they [illegible]

of competitors in this country [illegible] industry

[illegible] at all [illegible], we know none, really.

CONGRESSMAN [illegible]: [illegible]

[illegible] to the [illegible]

[illegible]

or [illegible]

[illegible]: Yes.

[illegible]

[illegible]

[illegible]

[illegible]

MR. [illegible]: I [illegible]

[illegible]

such a widespread shareholders' list. But it would have every reason to feel that it had been double crossed, let us say, because it listed under one set of regulations and then another set was imposed on it afterwards. Again, the major problem is not met head on, and it has to be met head on. That problem is more disclosure.

Canadian corporations do not disclose enough about their activities in general; and if these exchanges, the three of us -- Vancouver, Montreal and Toronto -- got together we could at least take care of all the firms that are listed with us. But there is a large number of companies outside that list that might still have not been affected.

COMMISSIONER LEMAN: I tried a similar idea when we spoke with the I.D.A., and did not get very far. Suppose the stock exchanges and the investment dealers got together, using the principle it is not just the listing on the stock exchange who has to accept certain disclosure requirements when you expect the I.D.A. and stock exchanges to let securities of that company get out in the public and be widely distributed -- that is really what we are looking for.

MR. KIERANS: Yes.

COMMISSIONER LEMAN: It is the fact you expect a number of people to carry your securities. You have never tried to get together with the I.D.A. on this subject of disclosure?

MR. KIERANS: Only in one or two isolated

cases we need them in this. I think the exchanges should settle this with themselves. We have the listed companies. The I.D.A. would come into it only in the case of isolated cases which have debt securities out but not equities -- the T. Eaton Company, or something like that. The exchanges could settle this problem themselves.

MR. REID: We have written to our member firms, asking them to give certain information we thought would be desirable, and many of them have written back saying, "Why do you want to put us at a disadvantage with our competitors?"

MR. CRUICKSHANK: Both exchanges have co-operated in that respect, with respect to letters to listed companies.

COMMISSIONER LEMAN: Do you take these answers very seriously?

MR. CRUICKSHANK: No.

COMMISSIONER LEMAN: I say that, because certain informal studies have been made which seem to prove that what your competitors know about you does not come mostly from the official reports you make to shareholders, and usually your competitor knows a lot more about your business than what decent standards of disclosure would require.

MR. KIERANS: There is no question about that. Actually, there is the larger economic argument for requiring more information. If we want to set appropriate policies in this country dealing with various industries, we have to know the facts about

those industries. I remember, when I was teaching at McGill, asking a graduate student to do a paper on the pulp and paper industry. He did a partial one, but the Canadian International Paper figures were not in there, and half a dozen others. From the Canadian point of view, how can we really discuss the pulp and paper industry, which is so important, when we cannot discuss the economic facts? The arguments are overwhelming that there should be fuller disclosure and at a very much higher level than those that the exchanges require. We should be playing our part.

THE CHAIRMAN: Would it be desirable to have legislation or an arrangement between the exchanges?

MR. KIERANS: We made a recommendation in the Corporations and Union Relations Bill that all the information supplied thereunder should be made public. This was the old bill, C-38, which was passed in the House. This takes up all your subsidiaries, and so on, and the Americans competing with Abitibi or Consolidated Paper, and these figures are made public.

If a Queen's graduate student wanted to do an analysis of the steel industry, say, this is the kind of information that should be available to him. If such information were made public the exchanges could go, the next or the same day, and, without any handicap to our listed members, could say, "This is what we will require you to do six months or a year hence." Then, nobody is hurt, and everybody is providing this basic information to the Canadian

people. Not only the shareholders but the people who had to frame policy in this country -- the government, civil servant, and so on -- would make Mr. Emerson's (D.B.S.) task very much easier.

MR. GARDINER: I feel that Toronto has made great steps in this direction, particularly with its filing statements, which I would like Mr. Moysey to speak to, in which instance we force the companies, in the fullest detail, to divulge sales and profits, expenses and management salaries, to a great extent, and this includes a lot of companies that are listed. We have put the pressure on a number of companies to the effect that they must file investment portfolios and quarterly statements, etc.

THE CHAIRMAN: You agree to some definite uniformity?

MR. GARDINER: Yes.

THE CHAIRMAN: By statute if necessary?

MR. GARDINER: Yes.

MR. KIERANS: Absolutely.

MR. SOMERVILLE: The position in the United States is rather interesting, in that the S.E.C. requirement as to listed companies is that they may list on any stock exchange in the United States -- the mid-West, Pacific Coast and so on. Those so-called regional exchanges have complained that legislation has meant a stunting of their growth because a local industry will not list. Ifyou analyse the bidding list of regional exchanges they are largely in New York stocks. A company will accept a disclosure

of the New York Stock Exchange because of its prestige. But in this country would that happen? Without legislation applying to unlisted securities companies they could develop a sizeable unlisted securities market in Canada which does not exist at present. In Canada there are under 200, whereas in the United States there are estimated to be 125,000 which have produced their own problems. This is what leads our people to think that enforcement by legislation would be a more practical manner in this country.

THE CHAIRMAN: Because it would extend beyond the exchanges?

MR. SOMERVILLE: Yes.

MR. KIERANS: Particularly where 62 per cent of your industry is controlled abroad and you get no figures.

COMMISSIONER BROWN: Could we talk about the question of commission rates? I gather from the briefs that you are both studying the question of commission rates.

MR. CRUICKSHANK: Commission rates have been static for the last 10 or 15 years, and very few changes have been made. We have compared ours with those of the United States, but in the New York Stock Exchange they base their rates on a value of 100 shares, whereas we base ours on so much per share, depending on the market value. I do not think we feel right now that there is any need, really, for any increase in the commission rates.

COMMISSIONER BROWN: Has there been any suggestion or exploration of the idea of getting on to the straight percentage basis for commissions?

MR. SOMERVILLE: Yes, we have made studies from that standpoint -- particularly from the accounting standpoint, the savings in cost of calculating commissions. But the trouble is the slope you would have for stocks from $5 up to $75 is so much different from the slope for mining stocks of a lower price. It would present a very drastic change. We took one step in establishing uniform rates for industrial, oil and mining rates, but this creates a problem in adjusting on a two or four per cent basis right across the board.

COMMISSIONER BROWN: In other words, the higher priced stocks would have to be at a higher rate than at the present time in order to average out?

MR. SOMERVILLE: You would have to make too drastic a change within the established rates to make an even slope.

COMMISSIONER BROWN: How about Montreal?

MR. CRUIKSHANK: I would agree with Mr. Somerville on that. I tried to compare our rates with New York, but you must remember that they are working on a 100-share lot. I would say most of our business in industrial is less than 100-share lots -- five, ten, fifteen, twenty-five -- as compared to the New York 100-share lots.

COMMISSIONER BROWN: How about the question of a fixed percentage throughout?

MR. CRUIKSHANK: It could work out, but it

would require a lot of adjustment and study to make sure you are not going to have a terrific increase or decrease in your different levels.

MR. SOMERVILLE: This may be apparent in Appendix 35, where we compare commissions in Canada and the United States as a percentage of the price. You will see we follow the United States' line pretty closely. Of course, we are competing with their commission rates on 128 stocks in the lower price range.

COMMISSIONER BROWN: The problem of that Appendix is that in my copy it does not show which is which.

MR. BRECKENRIDGE: The United States is the dotted line.

MR. GRAHAM: The solid line is Canada, and the dotted line is the United States.

COMMISSIONER BROWN: This is compared with the United States, but how about this question of arriving at a fixed percentage, as other stock exchanges do?

MR. SOMERVILLE: You might say it was desirable from an efficiency standpoint to have it calculated as a percentage, but it would change drastically the rates of commissions for the mining and oil sections of the market. This would affect, we will say, 30 per cent of our firms very drastically, cutting their revenue in half for the sake of having a uniform commission rate. As a practical thing it is difficult to see how it could be accomplished.

COMMISSIONER BROWN: Let us go to the other end of the scale: how about adjusted commission rates for volume?

MR. SOMERVILLE: The size of order, do you mean?

COMMISSIONER BROWN: Yes, that is right.

MR. MOYSEY: We have a category of special sized transactions in which the commission rate is adjusted, but that only takes effect in the case of transactions of $100,000, or more.

COMMISSIONER BROWN: Do you think this is a proper limit before you adjust commission rates?

MR. MOYSEY: That has come under three changes in the last ten years which have been acceptable, acceptable to our industry and to the investing public.

COMMISSIONER BROWN: This has been one of the criticisms we received from some of the large traders of stocks, that the rate was too high on large blocks, that is why they were developing a tendency to trade directly.

MR. MOYSEY: To trade directly has been suggested when they were going through the nominal efforts to object, but it is not a practical solution. The people who trade in large blocks claim this is best served by dealing directly with the market and the instances are very rare where they have sought to save commission by dealing direct and being unwilling to accept the fact the prices they received would be less favourable to the commission savings that they might gain.

COMMISSIONER BROWN: What is Montreal doing?

MR. REID: I think you would find if you drastically change the present scale of rates that the small investor would probably have to pay a higher commission in many cases, or else the industry would be severely handicapped in revenues because we can't go too high, we can't get out of line with the New York rates, and I don't think we are making too much money in the industry and the present rates are geared to produce a certain amount of revenue, and that seems

not out of line and if you start paying us on a straight line scale, a straight commission or perhaps a flat commission basis, I believe that there would be quite a revenue problem or else the commission rates might have to go up. If you cut down on the big blocks the smaller ones would have to bear it.

MR. STEINER: If I read this chart correctly, it looks as though the percentage commission does drop as the price of the security rises.

COMMISSIONER BROWN: This is obvious.

MR. STEINER: And the large purchaser to whom you refer generally does buy securities of a higher price than penny stock, so he does get some discount from that point of view.

COMMISSIONER BROWN: But if he is buying a stock in, say, the $26 category, he is still paying quite a percentage?

MR. STEINER: But he is not ---

COMMISSIONER BROWN: For the very large volume as well as the small?

MR. STEINER: That is true, but there is some adjustment there.

MR. CRUICKSHANK: A stock selling at $26 in Canada, the rate is 35 cents a share, and in the States a stock selling for the same price would work out to 35.4 cents, so there is not much difference.

COMMISSIONER BROWN: I am not worried about comparing them to the United States, I am asking what viewpoint you have on this question of very large orders and apparently, as I understand it, the concensus of opinion

is that you can't afford to reduce the commissions that are charged on the very large orders because this is the only way you can help to keep up your revenue.

MR. O'HARA: When it is over $100,000 they get a reduction, and this came after a lot of study. I know a lot of the institutes who deal in Quebec, and I couldn't see a large institute disclosing to the public the fact that before he sells he wants to sell, and he would have to go out and find a buyer. We go out and find the buyer for him, so other institutions don't know until after he publishes his balance sheet that he has sold. You have to keep specialized men who do nothing else but look after the block trades.

MR. MARTIN: And usually pay a better price than would be the case for our blocks?

MR. O'HARA: That is right.

THE CHAIRMAN: We will adjourn now until 2 o'clock.

--- Luncheon Adjournment.

--- On resuming at 2 P.M.

COMMISSIONER MACKINTOSH: Gentlemen, the Chairman said that we should proceed, and I think that my friend has some questions which he would like to put.

COMMISSIONER BROWN: I think we would like to ask you a question on outside governors or public governors. The Toronto Stock Exchange in their brief expressed the opinion that they didn't serve any real purpose or do not contribute too much. The Montreal Stock Exchange apparently are considering the appointment of outside governors, so presumably they will have an opinion on it of some kind.

MR. KIERANS: I don't say that I am speaking for the Board, but I think there would be considerable advantage -- indirect advantages if you will -- to having outside governors. It would extend the framework of the discussions that would take place at the board meetings. I think as the administration of the exchanges comes more professional in nature, with the appointment of paid presidents, and so on, that the members will be less concerned with the questions of detail than the actual operations of the exchange; they will become more concerned with the policy implications of the exchange, the position of the exchange in the financial framework of the country, and I think if you had the president of a bank or of an insurance company or a trust company, that this influence would serve to bring in outside points of view and I may say also, quite frankly, that it would probably lift the general tenor of the actual board meetings from

the minutia with which they are often concerned. This is a personal view.

THE CHAIRMAN: Are there any other views on this subject.

MR. REID: I might add that this is an idea that the Montreal board have kicked around and we think there could be some merit in it, but haven't done anything about it.

MR. GRAHAM: We have thought about it, Mr. Chairman, and have some information with regard to the New York and the American stock exchanges who have outside governors, and there experience has been that they have not really contributed a great deal because the work of the governors has been connected with the operation of the stock exchange and in many cases they have found it difficult to get governors to attend meetings, i.e. outside governors.

The attitude of the Toronto Stock Exchange is that we don't see the need for outside governors, but we have no objection to outside governors. We don't feel they could make much of a contribution but, from the standpoint of the public reaction and the public relations, it might be beneficial for the public to think that there were people in the exchange, too, who were not in the brokerage business. In Toronto, as they have in Montreal, I think they made the president a member of the board of governors, and Mr. Kierans and I are not called brokers and never have been, and we feel that this covers the situation pretty well.

COMMISSIONER BROWN: In the Montreal brief in

paragraph 29 it states that the role of the exchange has expanded beyond the point where it can be administered on a day by day basis by elected officers, that there is a requirement for a large permanent or appointed staff. To what extent have the administrative functions been taken over by the permanent staff? Does the board meet daily?

MR. KIERANS: No, the board of the Canadian meets once a month, and the board of the Montreal meets twice a month -- or every second week, rather -- and that is all. Now, I am in communication several times a week with the chairman on any matters of policy.

COMMISSIONER BROWN: Does the board set matters of policy, and is it left to the permanent staff to carry out the day-to-day operations and the day-to-day decisions?

MR. KIERANS: Yes.

COMMISSIONER BROWN: How far are they permitted to go? What is the scope of their authority?

MR. KIERANS: Not this chairman, but the previous chairman said that he is going to double his subscription to the Gazette because every morning we find out what the exchange had done the day before, and that was about a year ago, and I would say that more and more the operations of the exchange are being taken over by the permanent officers established. For example, our internal auditing staff is three to four times what it was. We are expanding our statistical and research departments and any number of operations.

We are prepared now to pretty fully examine

all applications for listing, and henceforth when these applications come in they are gone over by the secretary of the exchange, who is a lawyer, and by one of the auditors and then the whole report is just really presented to the listing committee of the exchange for its approval. We do most of the work, but they have to make a policy decision on whether this company will or will not be listed, but all the data is there.

COMMISSIONER BROWN: They do the administrative work and they get all the figures together and submit it?

MR. KIERANS: Yes, and with a strong recommendation in many cases.

COMMISSIONER BROWN: I suppose in most cases the recommendation will be approved, but there may be special cases where they may be turned down?

MR. KIERANS: That is right.

COMMISSIONER BROWN: That would apply also to any, well, minor decisions as to fair trading and other policing functions?

MR. KIERANS: Well, there is a floor committee of the actual members or the traders concerned and they consult with Mr. Cruickshank and others.

COMMISSIONER BROWN: So that the members of the exchange who are on the board of governors are not involved in the day-to-day detailed transactions?

MR. KIERANS: Just thinking of the agenda very quickly, Mr. Chairman, can I expand on this; the first three or four items, which might take up the whole of the lunch-hour meeting would be applications for membership or applications for partnership in member

firms, and these are the kind of things that the board refers to itself, and applications of listing companies, and so on, and then there is also the examination of the monthly figures, the operating statements of the exchanges, and so on.

COMMISSIONER BROWN: Does the same apply to Toronto?

MR. GRAHAM: Very much the same, sir; there has been a practice in the Toronto exchange during recent years for the governors to give more and more of the operating work to the executive staff, with the result now that although the board meets every Tuesday, every week, their meetings last only about an hour and a half, the luncheon meeting, and their work is confined to sometimes considering disciplinary matters, and in that case they would perhaps call special meetings to deal with a particular case where a customer has made a complaint or a member has transgressed the regulations or to deal with important changes in partnerships such as new partners coming in, and that sort of thing; but the trend is to operate the exchange more the way a corporation is operated, the governors acting as directors and having the items on the agenda prepared by the executive staff, their function being to really deal with matters of policy.

COMMISSIONER BROWN: Well, on disciplinary matters does the staff investigate any complaint and then recommend to the governor --

MR. GRAHAM: We don't recommend what the disposition of the matter should be, but we present the

facts to the board of governors and if they consider the offence justified in an appearance, a personal appearance of the culprit, he is summoned to appear and given notice of the charge that is being made, and so on.

We have a floor procedure committee, Mr. Breckenridge is the chairman of it, and their responsibility is to deal with breach of our regulations in trading and to deal with floor traders who have not complied with our regulations and occasionally they will refer the matter to the board of governors if they feel uncertain about the disposition. Similarly, other committees such as Mr. Moysey's committee which deals with the filing statements, on occasions will refer matters to the board of governors.

COMMISSIONER LEMAN: I don't want to embarrass you, but since we are reading paragraph 29 of the Montreal Stock Exchange brief don't you think that the phrase, "the president exercises discretion over all aspects of the role they should be playing in the country's economy." That is a very basic policy for that, isn't it?

MR. KIERANS: Yes.

COMMISSIONER BROWN: Is that ---

MR. KIERANS: I didn't write that!

MR. GRAHAM: That is the impression people have!

MR. REID: It escaped my attention.

MR. KIERANS: It says, "the role they should be playing in the country's economy".

COMMISSIONER LEMAN: It is not an accurate description.

MR. KIERANS: No.

COMMISSIONER BROWN: To what extent does the permanent staff initiate policing investigations, or do they wait for somebody of the -- shall we call them the elected staff -- to initiate complaints?

MR. SOMERVILLE: We feel our responsibility is to bring cases to the attention of the board and we initiate the inquiries often, and the institution of an inquiry on the stock exchange can be a pretty delicate matter to lead into -- perhaps inquiries that are unwarranted -- so in the final stages you have to proceed in a fairly confidential way and we have recently, for example, initiated an action concerning a listed company. We consider this our role.

MR. GRAHAM: And our examiners, who are chartered accountants and who are doing checks on investment offices and accounts from time to time, all report to Mr. Somerville or to me and, as a result of these reports, we may feel there is a matter that should be reported to the governors or to the audit committee, or that should have further investigation, and we do then pursue this but, to enlarge a minute on what Mr. Somerville said about the delicacy about this, you may wonder why it would be delicate.

We have found in some cases people who have taken a certain position with regard to shares in a company that would welcome an announcement that the Ontario Securities Commission or the Toronto Stock Exchange

is investigating this company because such an announcement perhaps results in a depreciation in the value of a share; so sometimes we feel -- and I think that Mr. Somerville will back me up on this -- that certain things are done, fake telegrams are sent and fake announcements are made just in order to try and induce us to announce that we are making an investigation of a certain company in an effort to drive the price of the stock down; so this matter has to be dealt with very carefully, and we have an executive staff to deal with it quietly and try to get the facts before we bring it to the attention of the governors who are all brokers.

MR. KIERANS: In the past three weeks we have examined pretty closely the activities of two companies. Mr. Martin here suggested we should look into the matter because one of the officers of the exchange felt that the president of a certain corporation was pursuing, shall I say, an open-mouth policy of forecasting conditions, creating speculative situations, and so on. But it can happen either way, as Mr. Somerville and General Graham have said. But I would consider it was our responsibility if the governors read one day in the newspaper that one of our listed corporations had created a pretty nasty situation which resulted in costing the shareholders money or, alternatively, that one of our member firms was in difficulty and that therefore its clients might be in danger. They expect us to keep in touch with these things and to bring such matters to their attention.

MR. STEARNS: I do not mean to disagree with the president of the Toronto Stock Exchange, and what I wish to say is to lend emphasis to his remarks. I should like to point out something which might not have been brought out sufficiently before, that we rely very heavily on the various committees of the Toronto Stock Exchange, and the membership does serve on these committees and reports to the board. The various committees, particularly the filing committee which meets as often as the board of governors, every Thursday, do very hard work.

MR. MOYSEY: I might add, with all due respect,

we meet longer if the board of governors are meeting an hour and a half, for we meet at 12.30 and it is unusual for us to be out before 3.30, 4.00 or 4.30 o'clock. We are trying to cut it down, but it works out that way on a busy market.

COMMISSIONER BROWN: Do you see an increasing development in having this done by a permanent staff rather than by members?

MR. MOYSEY: The permanent staff can only go so far in preparing materials and facts, and the decision as to how far we are going to go and what you are going to allow in the underwriting of speculative mining securities should remain with the members of the exchange.

MR. GARDINER: There is no question that more and more duties and responsibilities are being turned over to the permanent staff. A few years ago our meetings lasted to five o'clock, two meetings a week sometimes, and this became a tremendous, onerous burden on the members. As Mr. Moysey has said, there are certain functions that the members must perform. They have the industry-wide knowledge, and I do not see how a permanent staff could acquire this knowledge but apart from that they are taking over more and more the previous functions of the board of governors as far as the day-to-day operations are concerned.

COMMISSIONER BROWN: Have you any opinions as to public reaction? I mean, do you think the public reacts favourably when it is more and more an independent group making these decisions and there is

less question of the possibility of some self-interest being involved.

MR. GRAHAM: If I may speak to this, I am convinced that the public, in our part of the country anyway, feel that it is a good thing for more and more to be done by the executive staff who are not connected with the market itself. That is my personal opinion, and this is what we are doing.

THE CHAIRMAN: At paragraph 107 of the Toronto Stock Exchange brief, mention is made of the participation in the market by professionals. This is also mentioned in the Montreal Stock Exchange brief at page 13. Could you expand a little bit on the functions of the professional? Apparently the word "specialist" is used in the United States. I do not know whether the functions are the same but perhaps that could be explained. Could somebody do that?

MR. KIERANS: I would ask Mr. O'Hara to explain that.

MR. O'HARA: We talked earlier on about arbitrage, and in actual fact arbitrage as such does not play such a large part as it used to. The average arbitrage house has now become a professional trader and his functions on the market, I think, play a big part. He is quite willing to go and take on at his own risk a chunk of stock, taking it off the hand of the seller in hopes that he will make a gain on the market. He performs a similar job as the jobber in London or the specialist in New York,

and I feel he helps the market. He is not allowed in any way to interfere with a client's order. He has to step aside. If I go on the floor and I have a client's order and he is bidding for certain stock, he has to step aside and let me buy it. He cannot interferewith the market at all but he can move the market.

COMMISSIONER BROWN: This priority exists not only within firms but on the floor?

MR. O'HARA: On the floor.

MR. BRECKENRIDGE: I definitely agree with what has been said. We on the foreign stock exchange have recently introduced this Floor Procedure Committee. One of the main objects for setting up the committee, and the main point we looked at, was to see that our customers were at all times getting priority in their business, in their orders. I think it is the A.B.C. of brokerage ethics that no broker is going to interfere with the orders of his client. We felt, however, that perhaps it should be made a little broader and that we should make sure that a customer's order could not be interfered with anywhere on the floor by a non-customer's order. That is why we have put the regulations and rulings of the Floor Procedure Committee into effect along that line. We feel that the professional certainly has a place in the scheme of market trading, but at no times do we feel he should interfere with a client's order.

THE CHAIRMAN: The professional is a member

of one of the member firms of the exchange?

MR. BRECKENRIDGE: Yes. In the category of a professional -- we call him a non-customer -- we place a member, partner, director or employee of a firm. In other words, if the person is working for "X" firm and is an executive or employee, then he is classed as a non-customer.

THE CHAIRMAN: Then, at certain times for certain purposes, he buys shares for the firm's account?

MR. BRECKENRIDGE: Yes.

THE CHAIRMAN: And at other times he sells shares or he may sell short?

MR. BRECKENRIDGE: Quite so.

THE CHAIRMAN: Could you expand a little more the real purpose of that, and its effectiveness and to what extent it is successful in accomplishing this purpose?

MR. BRECKENRIDGE: You mean the operation of this professional, Mr. Chairman?

THE CHAIRMAN: Yes.

MR. BRECKENRIDGE: I would say from time immemorial his finest place has been when there has been a wild fluctuation on the market, either up or down, and when orders are not therefore in sufficient supply to either stop the market from rising too quickly or from going down too quickly. At that time the professional will step in on his own accord, or on his firm's accord, and steady the market, as we call it, by either taking some stock if the stock in his opinion is going down too fast or

selling from a long position or even selling short, if he thinks the stock is going up too fast.

THE CHAIRMAN: If he finds that the stock is falling on the market he may to some extent slow down the fall but he could lose quite a bit of money.

MR. BRECKENRIDGE: In fact, he has on many occasions, I am sure, sir.

THE CHAIRMAN: Then his firm would take the loss?

MR. BRECKENRIDGE: Definitely.

THE CHAIRMAN: And really what he is doing is something which is presumably in the interest of the market generally, as I understand it?

MR. BRECKENRIDGE: That is right.

THE CHAIRMAN: Does each firm have a professional operating in this field?

MR. BRECKENRIDGE: No, I would say the number of professional traders in relation to the 98 or 100 active firms on the Toronto Stock Exchange alone is very, very small.

MR. GARDINER: One thing that should be pointed out is that many of these professionals trade in odd lots, which creates an odd-lot market and this, of course, is most beneficial because when a brokerage house has an order to sell an odd lot it is most unlikely there is going to be some customer in some other house which wants to buy an odd lot at this particular time, so this trader, whom we classify as a professional, will gamble by always creating a market in odd lots and buy the odd lots

a little below the market and sell them a little above and thus make a minimum of profit. But this is certainly an important function in the operation of our exchange.

COMMISSIONER BROWN: I think we should clarify one point, and that is that these operations are not done with the intention of taking a loss. This might almost be assumed from the previous statement.

THE CHAIRMAN: That is one of the things I have great difficulty in understanding. Why does he buy the stock at a time when he might be involved in such great risk? If he waited a little bit until it reached nearer the bottom, his loss then might be very much less, or his chance of loss would be very much less.

MR. BRECKENRIDGE: He might be endeavouring to evaluate the bad news better than the ordinary public. What originally causes the stock to go down is news of a fire or something of that nature. This causes selling and there may be a few bids and he guesses that it will not be as bad as the public is making it out to be.

COMMISSIONER BROWN: While his action means that somebody will be able to sell his share at a better price than he otherwise could, it also means that somebody else will not be able to buy as well as he otherwise would.

THE CHAIRMAN: In a sense in his activities he is acting for himself in the same way as the customer

does.

MR. GARDINER: He is trying to make a profit. There is no question about that, but they do not always make a profit. Most of them suffer losses, but they are trying to make a profit. The result is that when you have so many doing it it creates a broader market. They do not buy to support the market but because in their opinion the stock is as low as it will be.

COMMISSIONER BROWN: This is what I wanted to make clear.

MR. GARDINER: But the result is that it broadens the market and means a bigger demand when needed, and a bigger supply when it is needed.

MR. THOMPSON: It also occurs that where the spread between the bid and the asking is very wide, the trader might look at the last sale and take stock on his own account at the last sale, thus creating a better market.

COMMISSIONER MACKINTOSH: This is probably an elementary question but is this professional always a professional or is it just occasionally he acts on his own account and not for a customer so that in effect any trader on the stock exchange may be a professional at some given moment of time?

MR. GARDINER: That is correct.

THE CHAIRMAN: One point that is clear is that at no time is he an amateur.

COMMISSIONER BROWN: I should like to get the mechanics of this down a little more clearly. How

are these orders differentiated?

MR. BRECKENRIDGE: First of all, the order, as you know, originates in the office of any one of the members and when that order is handed to the order clerk of the office it must be tagged. Usually they use the letter "P" if it is a non-customer order. Then when that order is phoned from the order clerk desk of the office to the office clerk on the floor of the stock exchange, if it is tagged with the letter "P" or any other symbol used by any one office, that is passed on to the order clerk on the floor and in turn, when the order is handed to the attorney or floor trader, it is marked, "This is a non-customer order or professional order" and is handled as such.

COMMISSIONER BROWN: How do you police this, in fact?

MR. BRECKENRIDGE: Actually, sir, it cannot be completely policed. I think I may say that we feel sure that the members of the Toronto Stock Exchange, who were well briefed on this procedure before it was put into effect, agreed to go along with it. I am sure that it has been gone along with by them. As far as the floor traders or attorneys are concerned, I am sure they are making as certain as possible that every order they get is marked properly, for the penalty that may be meted out to a floor trader who transgresses the rules is pretty serious in their eyes. It may be a fine of $500 or suspension or expulsion if a floor trader

is found guilty of not obeying the regulations.

COMMISSIONER BROWN: Let us go one step further. Have you fined any transgressors since you have put in the regulation?

MR. BRECKENRIDGE: Yes, two.

MR. GRAHAM: I think it is only fair to say, Mr. Commissioner, there could be the odd transgressions that would be difficult to pinpoint, but if anybody did it as a practice we could very easily and quickly discover that he was acting as a professional without properly marking the orders.

MR. O'HARA: The Floor Committee has the right, if they choose, to verify that order right through to the order desk and see the original order, and on occasions this has been done.

COMMISSIONER LEMAN: Have you considered instituting in Canada specialists as they have them in the New York Stock Exchange?

MR. GARDINER: We have tried it on the Toronto Stock Exchange. We experimented and spent a lot of time on this. Perhaps Mr. Somerville could tell you in more detail what happened.

MR. SOMERVILLE: Yes. We experimented some three or four years ago because we were planning at that time new premises, and we were giving consideration to the design of the floor and the operation of the floor and we made a study in this area.

We really tried two different systems. The first time the specialist was described in general terms, very much as in the American practice. He handled open orders and he was also allowed to trade on his own account and handle odd lot orders. There was objection on the floor to giving him too much latitude in the market because he had knowledge of both sides of the market and therefore had an advantage over the rest of the traders. Therefore, in the second period, we cut down his functions to that of simply handling open orders. He was a broker's broker on the floor handling open orders.

We learned quite a bit from it. We had a number of converts, I think, in the industrial market, but there were many people who said that this would be impossible to function in the active mining or oil market. I would say we will be watching with close interest everything that happens in the United States during the present inquiry.

The specialist is certainly performing a function, the same as the professional is, except that he is under compulsions in the market whereas the professional is not, although I expect that the description of a specialist in the United States is a little too rosy. He is also operating for his own profit, and he has a distinct advantage over the rest of the marketplace. This has been subject to some criticism. I cannot say that we have been able to find a solution, but we have certainly learned a lot.

COMMISSIONER LEMAN: Have they started driving

around in Rolls Royces?

MR. SOMERVILLE: The New York specialists?

COMMISSIONER LEMAN: Yes.

MR. SOMERVILLE: I think in a busy market they will do quite well.

MR. GRAHAM: I have heard in my office a representative of the S.E.C. say that they were very far from satisfied with the specialist system, and that they considered there was a great deal more merit in our system in dealing directly, broker to broker.

COMMISSIONER LEMAN: The only thing that seemed strange was this idea of not separating the functions, and, as Dr. Mackintosh inquired about, having someone decide at one moment whether he is a professional or whether he is an agent. It seemed at first to be a weak approach, but perhaps that is not as simple as it sounds.

MR. GARDINER: But they cannot compete, of course. If it is for a customer the professional or the specialist has to back away. The price is the same.

MR. GRAHAM: I think the important point to remember is that the professional is not competing against his client or anybody else's client. It is very important to understand this. If he buys then he buying because there is nobody else buying.

MR. GARDINER: Nobody else is willing to buy at that price.

MR. O'HARA: A specialist as such must call the market on the stocks, and he must take odd lots if they are offered to him. He cannot back off, whereas

the professional does not have to be in there at all. I know that on a number of occasions we have had people come to us and ask -- a fellow has offered to set up as a specialist, and it has been stated that it is almost impossible to work in our market.

THE CHAIRMAN: In view of the general public importance of the exchange and activities of the kind we have been discussing, is there anything to be said for having more information available about this sort of operation -- public information. For instance, I am thinking of the publication of aggregate statistics of this sort of operation on a regular basis. Perhaps there is not much point in that. Would it be of any value to the public, or to people who are interested in the operations of the stock exchange?

MR. KIERANS: Anyone who is interested can certainly get a full description and a briefing on the entire operations of the exchange, including this particular operation. It seems to me to be highly technical. There is no reluctance on our part to make such information available.

THE CHAIRMAN: I suppose balance sheets are available.

MR.KIERANS: Of the specialists -- of the professional trader?

THE CHAIRMAN: Yes, to show how much stock was being carried, and how much was sold short, and so on. Is there any advantage in that?

MR. REID: We do publish our sales.

MR. STEARNS: We publish all the short sales.

THE CHAIRMAN: That is available to the public?

MR. CRUIKSHANK: It is shown as at a certain time.

COMMISSIONER BROWN: How about the publication of firms' balance sheets? Now, there is a general policy that this is not done because it is a professional body, and so forth. Have you considered publishing each year combined balance sheets such as you have supplied us with?

MR. KIERANS: I think we would be quite prepared to publish. Toronto, as a matter of fact, has already beaten us to it by publishing it in their annual report which they have included in their brief. I am certain our members would go along with publishing annually the kind of information you have asked for, and received from us, without any trouble. Are you asking that the member firms themselves should publish?

COMMISSIONER BROWN: You have told us in your brief that you are against the member firms publishing.

MR. STEARNS: No, we have no restriction. We do have member firms who publish.

COMMISSIONER BROWN: Let me rephrase that. You are against compulsory publication.

MR. STEARNS: Yes. These are private companies, and we do not think there should be any compulsion.

MR. GARDINER: I think a number of members would not be against it, but I think the majority are. They refer to the legal profession. These are private companies. Why should the stock exchange be picked out, for instance, although there are many members who are not reluctant to publish their balance sheets.

MR. GRAHAM: What good would come of publishing them? That is what we ask ourselves. Why should they be published?

THE CHAIRMAN: That was in my mind. I do not know.

MR. GRAHAM: We have our audits. We have a very, very rigidly enforced audit system. We have our own exchange examiners who spot check the member's financial position. We say that these are private companies. Why should they be discriminated against as opposed to other private companies? However, if they want to publish these financial statements, then we have no objection, and some of them do.

THE CHAIRMAN: It is not as if the public were buying shares in your firm.

COMMISSIONER BROWN: On the other hand, you are acting in a position of trust. I think that I was possibly misunderstood here when I suggested that you should publish combined balance sheets. I do not see it in the annual report of the Toronto Stock Exchange.

MR. KIERANS: No, but they publish a report of their own activities.

COMMISSIONER BROWN: Yes, from the point of view of showing the public what their financial backing is.

MR. GRAHAM: Supposing all of our members published a financial statement. Would that not place some of them in an invidious position, and would it not affect their position unfairly if it was seen that some of them have less capital than others?

COMMISSIONER BROWN: I asked the question about a combined set of statements.

THE CHAIRMAN: The aggregate statistics.

MR. GRAHAM: For the whole membership?

THE CHAIRMAN: Yes.

MR. KIERANS: We have broken new ground by supplying this information to the Commission. There was no objection on the part of the member firms when the staff asked for the information. They just reviewed this very quickly. They did not query whether we were giving you too much or too little. We just said: "This is what the Commission wants", and that was all right. As a matter of fact, I think it might be beneficial if we continued it from year to year.

MR. CRUICKSHANK: These figures are given yearly to the Bank of Canada.

MR. GRAHAM: I cannot see any reason why the brokerage industry should publish a statement as to what the exchange brokers make or lose in a year any more than the Law Society of Upper Canada should publish what their members earn or lose.

MR. STEARNS: I think it does not do anything more than publicize what the capital of the firms is. If you are talking about the financial stability of the firms, then the public still knows that the firm with the least capital is still meeting very stringent requirements.

COMMISSIONER BROWN: I think you have answered my next question. Thank you very much. My following question is: Why is this not done? Why do you not tell

the public how much your members have to have?

MR. KEARNS: This is another responsibility that the permanent staff will have to take on. A member does not make any money when he is spending an awful lot of time on exchange affairs to the detriment of his own business, but now this can easily be made the responsibility of the exchange, and part of the members' general responsibility to make more information available.

MR.GRAHAM: Personally, I would hate to make any statement that would appear to indicate that we should do this. I would want to think about it.

COMMISSIONER BROWN: On the question of bond trading, the Toronto Stock Exchange has expressed the opinion that an over-the-counter market was sufficient. There was no expression of opinion in the Montreal brief that I could see as to whether bonds should be listed.

MR. MARTIN: To begin with, sir, you would have to go pretty far afield to be able to call a market on every issue of bonds that is outstanding. Toronto Met., if you wanted to take one issue, for example -- I do not know how many issues you would have to have quoted on that particular security alone. They are all serials. You would run into thousands and thousands of issues. I think it would be highly impractical.

COMMISSIONER BROWN: So that we can say that Montreal's opinion is the same as Toronto's?

MR. MARTIN: Yes.

COMMISSIONER BROWN: Would you explain for the record what you mean by a central depository for shares?

MR. CRUIKSHANK: A central depositary serves the same function as a banking institution. In other words, the stocks would be held by the central depositary in one block, so that if one person wished to transfer shares to another person all he has to do is to make out a cheque which instead of being for money would be for so many shares. This would alleviate all this business of transferring shares from one broker to another. Every broker would have a deposit consisting of so many shares of Brazilian traction, Abitibi, and so on. When he sells on the exchange he would not have to go through the procedure of drawing out those securities from the box, putting them through the clearing house, and then have them going from that clearing house to the buying broker. That would all be done by means of a cheque, you might say. In other words, it would be like we do with money under our present system of banking. Nobody goes around with all his money in his pocket. He has it in the bank, and when he wants to spend some of it he issues a cheque. In the central depositary system the cheque would be issued for so many shares.

MR. GRAHAM: I made a fairly close study of central depositaries while I was in Europe last autumn. They have had this form of not handling share certificates in Germany for many years, and during the occupation of Paris the Germans forced the Paris Bourse to adopt the same system. I saw the system in Dusseldorf, in Frankfort, and in Paris last fall, and it is certainly, as Mr. Cruickshank has said, an institution which acts

as a bank acts for the deposit of shares. While there are many difficulties that we would have to iron out before we could introduce the system here we on the Toronto Stock Exchange hope that in the not too distant future this system will be introduced.

There are problems with regard to the payment of dividends, for example, but this is all taken care of through the central depositary. The cheque goes to the central depositary and it is there divided up -- that is for all the shares that are issued -- and sent out to the different brokerage houses for the amount of shares that are on deposit in the central depositary that belong to them.

In Paris they do not know how they ever got along without this system now that they have been operating for some years. It makes one think that we are still operating in the horse and buggy days when one thinks that our brokers have to carry great packets of certificates around every afternoon to cover the deals that were made a couple of days ago. This, we feel, would be eliminated in the same way as the carrying of money has been eliminated by our using cheques.

COMMISSIONER LEMAN: This is a good thing that the occupation did for France.

MR. KIERANS: Hitler wanted to know where the French securities were.

THE CHAIRMAN: What this amounts to is that the shares of all of the brokers on the exchange that are in the possession of the brokers for their clients and for their own accounts are all placed in one central

depositary so that at the end of each day when the net position has changed there is a certain net amount of shares that has to be distributed to certain customers.

MR. GRAHAM: If the customer wants to take possession, yes, and if not, there is just a book entry made.

THE CHAIRMAN: Yes, that is right. Some customers do and some do not, and at the end of every day there might be a very slight difference in the total or the aggregate, so that every day there is some sort of a clearing.

MR. GRAHAM: That is right, sir. This depositary would be operated by a separate corporation. The stock exchange might supervise the function, but as we see it it would probably be an organization that would be owned by the banks, the trust companies and the brokerage community. I am speaking now in general terms, but one of the problems that could arise would be the fact that the transfer fees that are now paid to the trust companies would not be paid, and because of that we might meet a certain amount of opposition from the trust companies.

THE CHAIRMAN: The trust companies do not like it?

MR. GRAHAM: Yes.

THE CHAIRMAN: But, on the other hand, if that type of business is no longer necessary then why should the customer have to pay that fee?

MR. KIERANS: It is not money in the hands of the trust companies, as I understand it.

MR. CRUIKSHANK: There would also be a terrific saving in insurance that the brokers have to carry.

THE CHAIRMAN: Yes, I can see that a tremendous amount of money can be saved by this system, and there will also be a saving in the amount of bookwork that has to be done every day. It would make the bookkeeping very much simpler.

MR. CRUIKSHANK: Yes, it would be a simpler operation.

MR. GRAHAM: If you could get a report from the Vancouver Stock Exchange I think you would find that they have already produced a form of central depositary.

THE CHAIRMAN: They are always progressing.

COMMISSIONER BROWN: This would cover only the certificates that clients left with the brokers, and if a client delivered certificates as a security against a sale, they would go through the depositary?

MR. CRUIKSHANK: That is right.

COMMISSIONER BROWN: As a part-way stop have you discussed at all the possibility of clearing through trust company receipts?

MR. REID: Would not this be almost as much work as getting the certificates?

COMMISSIONER BROWN: You would save time in the sense that if you delivered a receipt that is properly signed to a trust company, and they gave you a receipt for XYZ, you could transfer this receipt the same day instead of waiting three days before you got it. Has this been discussed at all?

MR. SOMERVILLE: Something like that was discussed with the transfer companies. We were working with them in the designing of a system, and one of the alternatives was something similar to that, that when you sold your shares you surrendered your certificates to the trust company and they destroyed the certificate and gave you a receipt. So it would not be the same volume of nice parchment paper around about; but they offered us rates that were not attractive, shall we say. We thought we could do better in planning our own system. This is a possibility.

MR. GRAHAM: It goes part way.

COMMISSIONER LEMAN: You would not carry it so far as to develop an overdraft system for certificates, would you? (Laughter).

COMMISSIONER BROWN: This morning you mentioned -- I think both stock exchanges mentioned, in connection with the training of personnel, that you encouraged your employees to take the I.D.A. courses I and II. Is there any other comment any of you want to make about contact with the I.D.A. or co-operation with the I.D.A., just for the record?

MR. GRAHAM: I think our co-operation and liaison with the I.D.A. has improved even during the past few months. We have a member of our board whose responsibility it is to liaise with the I.D.A. -- that is Mr. Steiner -- and we operate very closely together in discussing policies, and so on. I do not

think there is much more that can be done now.

MR. MOYSEY: It is more than a liaison between two separate but parallel institutions. So many houses are active in both associations that the liaison is going on from minute to minute within those firms, and they form a very substantial part of the membership.

COMMISSIONER BROWN: How about the Broker-Dealers' Association?

MR. STEINER: Approximately 28 members of the stock exchange are members of the Broker-Dealers' Association. I have been Chairman of the Board of Governors of the Broker-Dealers' Association for five years, and I think it is probably through that connection that I have sat on the Filing Statement Committee of the stock exchange since its inception in 1958. That is a committee that deals with the type of security which would be more closely allied to what broker-dealers handle. In that way I have attempted to form a very close liaison between the stock exchange and the Broker-Dealers' Association. There are also two other members of the exchange on the board of governors of the Broker-Dealers' Association. The total board of governors numbers nine, so one-third is formed from members of the stock exchange.

COMMISSIONER GIBSON: I might ask a few questions about the exchange's relations with other institutions. How about the question of the extent to which other people compete with you in providing

advice in portfolio management and so on? This is done to some extent by trust companies and, in some respects, by banks. There are a lot of security advisory firms. Is this becoming more widespread than it used to be?

MR. REID: I think it is.

MR. MARTIN: Very much more so, I would say. In any house of any size I think it forms a very important part of their over-all function. This is something that has grown over the past few years, to the point where it almost has become a necessity in any large firm. The constant review of clients' holdings and keeping the portfolios in balance is very important.

COMMISSIONER GIBSON: I understand that, but is more and more of your business coming through other financial intermediaries -- banks, investment counsellors and so on?

MR. REID: They are increasing their business, and they have to go to a broker.

COMMISSIONER GIBSON: Proportionately, is it an increasing part of your business, or is it just growing in all fields?

MR. REID: That would probably vary from house to house, depending on how many connections you have who are investment advisers.

MR. O'HARA: In many cases a lot of accounts use a trust company and a broker. He uses those for advice, and they consult one another as to what they consider best would fit into his portfolio.

That naturally sends that business to that particular broker.

COMMISSIONER GIBSON: You are not just talking about trust estates, but individuals who do it this way?

MR. O'HARA: Yes, this also works with banks too. The banks do not have the securities research we do, and they will often come to us for advice on certain accounts, and we get the business for it.

MR. KADLEC: I might say, Mr. Commissioner, the answer to the questions that you have been asking will be more apparent in subsequent years, now the Montreal and Canadian Stock Exchange have their annual transaction study indicating that portion of transactions carried out by public individuals, on the one hand, and institutions on the other.

By way of analogy and, perhaps, of interest, the New York stock exchange has for some time studied the way in which individual shareholders became such. That is, whether they acquired their stock through the influence of a broker or a bank or trust company, and so on. The indications are increasingly that institutions are influencing people more and more over the last seven years, in that instance -- to acquire equities.

COMMISSIONER GIBSON: I notice that in the Toronto Stock Exchange brief you give a list of the members, of member firms who have directorates in other financial organizations. This does not suggest any very great interlocking. It is a patchy sort of

picture. Are there any other close -- or, say, any close connections of other forms of business -- with industry or mining or anything of that kind -- that is evident?

MR. GRAHAM: There is a close -- not a "working arrangement," but certainly a friendly exchange of ideas, and so on, between brokers and, say, the mining and metallurgical association.

MR. STEINER: That is correct.

MR. GRAHAM: And the Canadian Analysts' Association.

COMMISSIONER GIBSON: What about directorates? Is there much connection between industrial enterprises and brokers and mines and brokers? You give this picture of the relationship between the membership of the exchange and financial organizations; and there is not a great deal there.

MR. GARDINER: I think many of the underwriting firms, the principals or partners or directors, are also directors of industrial companies which they have underwritten, because they want an opportunity to sit on the board and protect the shareholders because they sold the shares to them. I think, as time goes on, there are going to be more and more brokers who are also directors of various industrial enterprises. I think this is a trend, and I do not think that they are active in these enterprises, but they are certainly represented on the board.

COMMISSIONER GIBSON: This is fairly widespread,

is it?

MR. GARDINER: In my opinion, it is.

MR. MOYSEY: I think there are two reasons why you might find a member of the stock exchange being on the board of an industrial company. Particularly in the case of underwriting there is a responsibility on the underwriting house to follow through and to establish liaison information which will protect their clients. In many cases an industrial company will come to a member firm upon whom they have relied for advice and ask a member of that firm to sit on their board; and it is a very economical way of getting excellent financial advice.

COMMISSIONER GIBSON: And it cements the connection, in looking to the future?

MR. MOYSEY: Yes.

COMMISSIONER GIBSON: This has more to do with underwriting services than anything else, does it not?

MR. MOYSEY: I think that is the most common reason.

COMMISSIONER GIBSON: You do not see any difficulty about this?

MR. MOYSEY: Unless abuses can be found, I think it is constructive, normal and healthy.

COMMISSIONER GIBSON: Going on to the question of the ~~exchanges~~ relations with the Federal Government: you do not have any formal contact with the central bank, I take it?

MR. KIERANS: None.

COMMISSIONER GIBSON: Do you have any informal contacts?

MR. KIERANS: We just know them; that is it.

COMMISSIONER GIBSON: Is there any talking back and forth?

MR. KIERANS: No, they have only called Montreal two or three times. They called us at the time of the break, I guess on May 28th,and they wanted to know if we would check around and try to find who did the selling, and we found out what we could for them. They wanted to know whether it was institutional or any mutual funds which started to sell at that time, which had not happened. We are available for anything they want, but we just do not hear from them.

COMMISSIONER GIBSON: You are talking now about the central bank?

MR. KIERANS: Yes.

COMMISSIONER GIBSON: How about the Department of Finance, is there any connection there?

MR. GARDINER: Mr. Pettet, who is the stock exchange auditor, has just reminded me that yearly we send in a combined statement to the Bank of Canada, so we certainly have that connection.

COMMISSIONER GIBSON: But you do not get many suggestions from them? I think you did quite a while ago, in the early 50's?

MR. KIERANS: Once.

MR. GARDINER: And monthly figures.

COMMISSIONER GIBSON: That is information you provide?

MR. GARDINER: Yes, that is correct.

COMMISSIONER GIBSON: But coming the other way?

MR. KIERANS: The demands are very few.

MR. SOMERVILLE: I can remember one or two occasions when they have discussed the size of our call business.

MR. STEARNS: We would expect them to express an opinion if they found they were far out of line.

COMMISSIONER GIBSON: Asking for or expressing an opinion?

MR. STEARNS: Whether they were too high or what was the nature of the security collateral.

COMMISSIONER GIBSON: Do you feel you have a fairly good idea of what the monetary authorities are thinking? Let us be more specific: how about the bank rate? Do you like a definite kind of bank rate signal, or do you like the system we had a little while ago?

MR. KIERANS: The system we had a little while ago was not really a system.

COMMISSIONER GIBSON: It was a piece of machinery.

MR. KIERANS: It did not mean anything. You just took your bill rate. The fixed rate is a much clearer economic indicator on this, the way the government feels about the money supply, in that

broad sense. It is a definite signal.

COMMISSIONER GIBSON: Do you think it is helpful to you to have a signal like that from the central monetary authorities?

MR. KIERANS: Yes, and I think it probably would give you a little better feeling that the government itself would be bound, at least, to conduct its own policies in relation with the signals it is giving out. I do not think we have always had this confidence in the past.

COMMISSIONER GIBSON: I am thinking of your own policies in relation to what you found the monetary environment was -- such as margin requirement, and so on and so forth. You are presently guided by your general assessment of what the situation is. Would you like more signals from Ottawa on these things? Do you see what I am getting at?

MR. KIERANS: Yes.

MR. REID: Strictly, from a narrow stock exchange point of view, I do not see it has any importance to us, except that if they carry out the right policies we get a bigger trading volume!

MR. GRAHAM: For the stock exchange per se, I do not see how it would affect us. It might be interesting to us, but I do not see how it could be much use to us. It might be useful to our members, but the stock exchange itself is a market place, and we are there to perform a function, the trading of shares.

COMMISSIONER GIBSON: This is true, but what

about margin requirements?

MR. GRAHAM: That is one area.

COMMISSIONER GIBSON: This could be important in some circumstances?

MR. GRAHAM: Yes.

COMMISSIONER GIBSON: Do not you think there is a case for changing margin requirements when there are marked changes in financial conditions?

MR. KIERANS: I think the exchanges have been pretty happy with the 50 per cent, and I do not think that any change in indication like this would have much effect on that. I cannot see very much change in the 50 per cent margin requirement.

COMMISSIONER GIBSON: In other words, you like this as a long-term arrangement?

MR. KIERANS: Yes.

COMMISSIONER GIBSON: I understand that in the States they have eased up on their margin requirements recently, and I take it this is as a result of their assessment of the situation; and, indeed, the request comes from Washington. You do not like that kind of flexibility?

MR. KIERANS: I do not think they should have used marginal requirements to ease a situation that might require other economic policies. That was a one-shot action, in view of the U.S. government taking other steps such as tax reductions or other more appropriate policies at that time.

COMMISSIONER GIBSON: Could not this be part of an appropriate policy?

MR. KIERANS: No, I do not think so.

COMMISSIONER GIBSON: Why do not you think this is a useful thing to do?

MR. KIERANS: You are telling people to come in and buy stock on a cut basis.

COMMISSIONER GIBSON: You are saying that you do not have to put up as big a margin.

MR. KIERANS: You are making it easier for them to buy stock -- and it got us into trouble once before.

COMMISSIONER BROWN: How about a move in the other direction?

COMMISSIONER MACKINTOSH: Supposing you have a boiling bull market?

MR. KIERANS: I would have to let the broker talk.

MR. GARDINER: I think most brokers are not looking at the economic and financial system at all. They are looking particularly for protection to themselves and what margin do I need to start with, so I will not get hurt. If the market goes down and a client cannot put up the money, the 50 per cent has worked out very well.

I think most stocks listed in Canada are volatile, and I do not think the brokers would want a margin requirement, so we do not have 50 per cent because we want to protect ourselves. 50 per cent, historically, has worked out, and even in times of bull markets we feel that by astutely looking at the situation we can keep this under control. I do

not think we like to see it jump around.

COMMISSIONER BROWN: But suppose you find yourself in the situation that Dr. Mackintosh was describing, where the central bank has asked for a lot of extreme credit controls, would you regard it as unreasonable for them to raise margin terms? This is a pretty clear situation.

MR. KIERANS: Of the order of $24 million or $25 million.

MR. REID: I think if the brokers saw a situation where they thought they were getting into a dangerous position, or somebody in the group, and youhave had a boiling market and brokers' loans rising and prices rising to a point where you felt they might drop very easily below the necessary margin -- probably the two exchanges would get together and say, "Look, we think we will raise our margin to 75 per cent." I could see that happening.

COMMISSIONER GIBSON: But you do that from the standpoint of what you think is the best procedure on your part?

MR. REID: Yes.

COMMISSIONER GIBSON: You wouldn't do it because you thought it fitted in with a particular monetary policy?

MR. REID: No.

COMMISSIONER GIBSON: That is my understanding. Do you see any objection to the central bank working more closely with the exchanges if the need arises for monetary policy purposes?

MR. STEINER: You mean working closely or dictating!

COMMISSIONER GIBSON: Moral suasion.

MR. KIERANS: Can't they tell the banks to do something about this?

COMMISSIONER GIBSON: You do work through the banks; this is another instruction on the margin requirements of stocks.

MR. REID: For many years the amount of money in brokers' loans has been a negligible factor in any economic consideration. We haven't thought about it.

MR. MARTIN: There has been a certain amount of moral suasion, as somebody pointed out, in certain years and during tight money, and that the various stock exchanges were requested to see that their brokers' loans didn't exceed a certain amount of money.

COMMISSIONER BROWN: If it is in your own interests you are worrying about this to make sure things are not reduced too much, but what would your reaction be to some higher authority saying that this will be the minimum margin afforded?

MR. REID: You mean to reduce it and put in a lower minimum?

COMMISSIONER BROWN: This will be the minimum, but if you want to insist on a higher rate that is your business, but let us pick a figure out of the hat and say that 75 per cent will be the minimum, or 50 per cent? If you want to insist on higher, that is your business.

MR. GARDINER: We do this now in many a security; we will not allow a 50 per cent margin.

MR. SOMERVILLE: He means within his own firm.

COMMISSIONER BROWN: Say for the sake of argument that the Bank of Canada decided that that was getting too speculative and they or somebody else said that the minimum margin required will now be 75 per cent.

MR. GARDINER: And maintain that at all times?

COMMISSIONER BROWN: You can insist on 90 per cent if you want to, but what is your reaction to that sort of thing? The point was made that you are interested in 50 per cent because you don't want to see it go below this, but what if somebody else suggested the minimum should be higher?

MR. KIERANS: I would say it is unnecessary bureaucracy, because if the system is working well and there is no danger to the monetary system and the Bank of Canada, why should the Bank of Canada impose a regulation? The exchanges found it worked satisfactorily.

COMMISSIONER BROWN: We assume that the Bank of Canada would only impose this because they thought it wasn't enough and that the monetary situation required a higher figure.

MR. GARDINER: We wouldn't like this.

MR. REID: If it got out of line with competing members such as the New York margin requirements we probably would lose business and wouldn't be happy.

COMMISSIONER GIBSON: It is not too likely, I don't think. We haven't had this situation.

MR. KIERANS: New York's margin requirements are less than ours; theirs is 50, which can slide down to 25, and ours is 50 all the time. The Canadian margin requirements are stricter now.

COMMISSIONER GIBSON: Do you lose business to New York under present conditions?

MR. KIERANS: Not by reason of margin, not that I know of.

MR. MOYSEY: We gained a bit when their rate was 70 per cent. I think they found our 50 per cent generous.

COMMISSIONER LEMAN: Perhaps they have doubts about monetary policy as a whole!

THE WITNESS: I would say it is apparent [illegible]

it
[illegible], however, the answer is something well [illegible] there is no danger to our monetary system and the [illegible] of [illegible], as should be back of them, a large [illegible]? The reserve [illegible] found it worked [illegible].

COMMISSIONER BROWN: [illegible] the [illegible] would only [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible].

[illegible] we would [illegible].

Mr. [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible].

COMMISSIONER [illegible]: [illegible] [illegible] [illegible] [illegible] [illegible].

MR. [illegible]: [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible].

[illegible]

COMMISSIONER GIBSON: I think you have made your position reasonably clear.

I would now like to go on to a more rarified subject and ask you if you care to express any opinions as to the factors that cause movements in stock prices, and particularly if you would care to say anything about how you think a change in credit conditions, change in the monetary policies, work through the stock market and affect the stock market? I realize that these are pretty general and broad questions, but the stock exchange is an important institution in our economy and if you can express any views about why it works in a particular direction and where it leads in relation to general business, we would find it very interesting.

MR. KIERANS: The first impact -- and I would like to kick this off a little bit first -- I think that monetary policy, that the general economic policy on the whole has quite an impact, has quite an effect on such exchanges.

People, especially abroad, judge the country by the quality of its government leadership, by the quality of its over-all economic policy, the sophistication with which it handles its affairs, and if it gets any doubts about its policy, if it becomes confused, if it feels that Canada is facing two ways at once, they begin to sell Canadian and they begin to doubt that Canada is quite as profitable a country or such a haven as it was, and in this general way you find quite an impact on the Canadian

stock market. This has been recurring to any of us who have gone overseas in the last two or three years. They say, "What is the country's commercial policy?" "What is this Coyne dispute all about?" "I had better sell the Bank of Montreal stock I have." -- probably not the Bank of Nova Scotia stock, anyway! Or, "I had better sell Aluminum or the Steel Company of Canada," so generally speaking you know the things that affect each of us individually have quite an impact stock market-wise. It is higher than the policy, but that is where it starts.

On the question of confidence in the general direction of the economy, I would like to tell you about this, that I think continued throughout the summer it has been every broker's experience that a lot of the heavy selling coming from London and Zurich and elsewhere was sheer lack of confidence in Canada. Stocks went down that really had no reason to go down, or the earnings of the banks are improving their stability and everything else is improving, but the bank stocks were off considerably and bank stock has always been extremely attractive to Continental buyers and investors.

COMMISSIONER GIBSON: Of course, the New York market may have this, too.

MR. KIERANS: But this was continuing during June and July when New York was steadier and there was very heavy selling.

COMMISSIONER GIBSON: It is perhaps a good way to look at it. Generally, I gather, there is a

fairly close relationship between the New York market and the two major Canadian exchanges. Would you care to elaborate a bit more on the reasons for the differences that develop from time to time? Do you care to say any more about this? Is there an obvious direct relationship between the short-term business outlook in Canada and the market?

MR. KIERANS: I will let somebody else speak on that point.

MR. REID: I think there would have to be; the stock market has got to reflect the short-term outlook for business.

COMMISSIONER GIBSON: The market leads, it doesn't follow.

MR. REID: I should, It should lead.

COMMISSIONER GIBSON: Do you think it does?

COMMISSIONER MACKINTOSH: Historically there have been times when the market followed, of course; there have been cases also when the economy didn't follow!

MR. REID: I will say it tries to lead.

COMMISSIONER GIBSON: Do you put much emphasis in your thinking about the trend in the market on the relation between stock and bond prices? Is this an important factor in the minds of the stock brokers?

MR. MARTIN: I think it has come into its own and very much more so over the last few months.

COMMISSIONER GIBSON: They both have been going down?

MR. MARTIN: They both have been going down but I think there has been a realization on the part of the investor that interest rates had gotten to a point where maybe he should think twice about divesting himself of a certain proportion of his equities and moving into the investment side of his investment portfolio. I think it was noticeable that there was a very marked movement on the part of the general public, the small investor, to move into these bonds, which hadn't been the case for some time past, and in order to provide the funds a lot of it, I am afraid, came out of the government. You mentioned earlier the investment counsellors and advice; it looked as if we were working for a while on the basis of new standards entirely and growth was the pattern all the way down the line and nobody seemed to pay much attention to the earnings ratios; we were faced with a whole new set of standards and when the chips were really down we got back to the real basis of what a reasonable price earnings ratio should be, and I think that this is a correction that took place in the market in the last few months.

COMMISSIONER GIBSON: Have you any thoughts on the degree to which inflation is still a major factor in the market? How much do bond prices have to discount price increases to become interesting?

MR. REID: I don't think that inflation is too much of a factor at the moment. I was wondering whether your question was do we really believe that the market is right in forecasting a gloomy outlook

for business.

COMMISSIONER GIBSON: I don't want to try to nail you down on the market forecast, I just want the ideas you have of the relationship of the market to the general economy.

MR. REID: [illegible] ction than the general one. I am inclined to put a considerable amount of weight to the movement and the size of the movement that has occurred either on the down side or the up side. It has been on the down side and I am inclined to believe that one should give some weight to the extent of this movement and exercise caution. I think that is a personal opinion.

COMMISSIONER GIBSON: I don't think it is fair to ask for market forecasts in a discussion of this kind. What about the influence of the American market; do you see that the Canadian market has pretty much of a frightening future, or will it develop later more independence?

MR. REID: When we do as much business as we do with the U.S. , I don't see how we can become too independent of the U.S. market and when the Americans are as important investors in Canada as they are and as they are likely to continue to be.

COMMISSIONER GIBSON: I gathered this morning from something somebody said that some of them were not quite as enthusiastic about us as they used to be and weren't investing as much in stocks.

MR. REID: I think that is true, but there is

still a lot.

COMMISSIONER GIBSON: And you don't think it would take too much to bring them back again?

MR. REID: No, I don't think so, but it will take something to bring them back.

COMMISSIONER GIBSON: And have you any comments you would like to make on that?

MR. REID: Well, I think that we are dependent to a great extent on world trade, and if the European economy and the U.S. economy can keep their rate of expansion, can maintain the expansion that they have shown and if they can keep their economic balance, we are bound to benefit, but it may take some time. I say that it may be a matter of months or a year or two before it becomes very clear how this trend will go.

COMMISSIONER GIBSON: I was thinking of looking ahead and making your judgments about stock prices as you go along; you are still going to be influenced in a major way by the trends in the United States?

MR. REID: I think so.

COMMISSIONER GIBSON: You can't think even of 35 per cent in terms of just the Canadian picture, is that fair?

MR. REID: I don't see how on our own we build up our business here to replace world markets.

MR. MOYSEY: I would like to express a contrary view. You can't ignore the relationship between all the world markets because Hong Kong and

Canada are influenced by world-wide conditions of the markets to a degree parallel to each other in broad swings, but I think the Canadian market will ultimately find its level based on promises and assurances of safety and confidence, plus the prospects of profitability.

That is not only something that Canada can offer to the rest of the world, but perhaps in its relative sense it would arise from a lack of confidence, a lack of prospect of profitability in other markets. I don't really think that the Canadian markets are too closely tied to the other markets other than in these long swings that affect world-wide markets.

MR. KIERANS: Well, are we not going to be even more tied to the American economy now that we have joined up to the International Monetary Fund than we have been before and therefore more susceptible to the swings? In fact, by joining the Monetary Fund haven't we tied all of our growth to the American growth?

COMMISSIONER GIBSON: I don't know whether we shouldn't ask you to answer that question.

MR. KIERANS: We have given up one element of flexibility, and the answer as to whether we have a commercial policy that will permit us to tie ourselves to other areas of the world is apparently no.

COMMISSIONER LEMAN: It is left to the Commission to answer the question!

MR. REID: Perhaps there should be a similar

reluctance here.

THE CHAIRMAN: We will adjourn now for five or ten minutes.

--- Short recess.

THE CHAIRMAN: Shall we resume?

COMMISSIONER LEMAN: Gentlemen, we have been told by quite a few people since the beginning of our hearings that there was a dearth of good, grade equities in Canada. You talk about it too in your briefs, particularly in the Montreal brief. Do you feel this has been a factor to limit the demand for equities securities?

MR. KIERANS: Yes, very definitely, because you cannot keep recommending to your clients that they should buy Bell Telephone when it gets beyond any reasonable return.

COMMISSIONER LEMAN: It has tended to over-price the stocks or what?

MR. KIERANS: No. The point is that you compare the dividends here with prices elsewhere in other markets and that would place a limit on the price, but given the fact that so much of our industry is controlled elsewhere by that same percentage you have equities that are not available to a country of a given economic size.

COMMISSIONER LEMAN: You make a lot of comments in your brief about this, and I gather from your comments that one of the factors for this state of affairs is that there are a lot of industries in Canada controlled outside and whose stock is not offered to the public in Canada. I think you even explained that the Montreal Stock Exchange has written letters suggesting that this would help, but that you have not met with very much success, at least

the response has not been very good. I think you also say at some point that you do not feel that the legislators can do anything about that, do you not?

MR. KIERANS: That is right.

COMMISSIONER LEMAN: Can anything be done about it?

MR. KIERANS: No. All we can do is keep on pushing the American company or the foreign company to consider it, to try to portray to him the advantages of doing it as compared to the managerial disadvantages from his point of view. But I cannot see where legislation forcing the foreign company to sell off part of its equity in its Canadian operations is going to achieve anything. You are going to force him to do something by legislation. I agree with a number of responses we received that a great many of these operations really cannot be sold at the present stage of their development to the Canadian people. I remember talking about this at one time to, I think, a Canadian Club and the next day a Swiss banker came into the office and said, " I read a report of the suggestion of yours that subsidiaries sell off their companies to Canadians" and he said, "I have a company and I am willing to sell it to you at a fair price. As a matter of fact, I will give it to the Canadian people for nothing." He said that he had been operating the subsidary with 1200 people for ten years and had made no money. He commented that competition had been too great, the

market too small and there was really nothing to sell. I think this is what is going to attribute to a decline in a short run in Canada in the next two or three years, a serious decline in direct investment in Canada, for it is only in the past year or two that foreign firms have finally found out that the profitability of their investment in Canada has been very low compared to profit opportunities elsewhere. You are beginning to get this everywhere now.

COMMISSIONER LEMAN: Of course, you cannot be talking about trust grade equities.

MR. KIERANS: No.

COMMISSIONER LEMAN: This one would not turn out to have trust grade equities, would it?

MR. KIERANS: The parent company is a trust grade firm.

MR. REID: I do not think it is a lack of equities but a lack of rising profitability that is the problem.

COMMISSIONER LEMAN: What about the other approach, to get more such parents to list in Canada?

MR. KIERANS: Well, we have endeavoured to do this. Toronto has them, but I do not think I would ever again undertake to go down to New York and persuade Union Carbide, for example, or anyone else, to list their stock in Montreal. It is very nice to get a listing fee, and so on, but it would not do much for the volume of trade in Montreal or Toronto, because the market for these stocks is in New York and that is all there is to it.

We have some of these American parent companies and we might sell two or three thousand shares in a year whereas the volume on the New York market would be a thousand times that. So that is no solution.

COMMISSIONER LEMAN: Well, some large American parents have found it useful to list here. This must have been based on what they knew of the demand for their stock in Canada.

MR. KIERANS: I do not know. I should like someone else to talk on this.

MR. SOMERVILLE: I think I could offer some thoughts here. With one or two exceptions none of these American company stocks are traded except in very insignificant amounts, and by that I mean one or two trades a year or one in every five years.

MR. KIERANS: That is right.

MR. SOMERVILLE: They have listed for reasons of public relations or something else and the stock is available to their employees who are resident in Canada, but as far as Canadian shareholders are concerned it cannot be a factor, if they have made any kind of a study at all.

MR.KIERANS: I remember one company that wrote back and said, "We are quite willing to entertain your suggestion that we list in Montreal but I happened to be talking to the president of Chrysler Corporation and he said that their experience was that there was little or no trade in Canada." He said, "I checked this in your review and found

out you did not trade a share in 1959" or whatever year it was. I just wanted to bear out what Mr. Somerville has said. This problem of listing American corporations up here will not solve the situation, for the market for these stocks is in New York.

COMMISSIONER LEMAN: Separately you make the point in your brief in a mild way that another factor that may have hurt the extent of equity investment in Canada is thin markets in a lot of stocks. I think you will find that on page 61 of your brief, where you say:

> "In addition, certain 'trust grade' markets are extremely sensitive to volume changes so that large holdings of these securities must be disposed of over long periods of time to avoid artificial price changes which could become most pronounced under the impact of heavy selling or buying. These 'thin' markets are of great concern to the portfolio manager seeking flexibility."

Is there any solution to that problem?

MR. KIERANS: This is an argument we often get from life insurance companies investing in equities, that if they wanted to dispose of much stock there would be a drop in the market. But the problem of broadening our markets is just interesting more Canadians in buying Canadian equities.

COMMISSIONER LEMAN: Then you go into a

fairly detailed analysis of this distribution of equities, especially in the Quebec market. It is quite striking what you have discovered there. By the way, have you had an opportunity to read the brief of the Toronto Stock Exchange in detail?

MR. KIERANS: No.

COMMISSIONER LEMAN: Because there seems to be a little bit of discrepancy there in the statistical information. Perhaps you could endeavour to reconcile this later. For instnace, there is quite a difference in the percentage figures given with respect to institutions and individuals.

MR. KIERANS: We have not been able to compare them, but we will forward to the Commission any information we get with respect to this matter.

COMMISSIONER LEMAN: Let us talk about the equities in individuals first. There must be factors there that have something to do with the selling efforts that have been made for equities. To what extent do you feel that the selling effort by dealers and brokers has really blanketed the population of the country?

MR. KADLEC: If I may answer that for the moment, the effect of, let us say, the selling effort or of a thorough marketing programme is, I think, in the case of Quebec, vividly brought home by the impact of companies selling savings certificates or mutual funds where the Quebec investor or the Quebec public, as we know from statistics that have been supplied and have been included in our brief,

at varying levels of income tends to have a reduced propensity to buy equties, as can be seen by comparing national figures. Nevertheless, the experience has been that where an aggressive, well-organized selling group goes out afield, so to speak, they are able to a large extent overcome this innate conservatism, if I may call it that, and I think it is perfectly valid to comment that one of the most important things in our so-called thin Canadian markets and widely-spread population from coast to coast is to establish an educational programme, which may be a euphemism for more selling, and I think that any impediment of an artificial nature that we raise in the reaching of our small population, whether it is security sales regulations, or whether it is of a tax nature, -- all these things operate to the detriment of overcoming these points you are enumerating here.

To sum up, I think that far from saturating the public with a selling or an education programme, if you like, the surface has been only slightly scratched in that regard.

COMMISSIONER LEMAN: There is the matter of cost involved.

MR. KADLEC: Yes, it is a tremendous cost because of the distances, of course.

COMMISSIONER LEMAN: There have been some efforts made. I suppose that the growth of mutual funds has tended to spread equity investment in an indirect form. I also gather that the Montreal

Stock Exchange has made another effort, which was probably directed to the same purpose, and that is with respect to the instalment plan type of purchasing. On this question it would appear that the two stock exchanges have a different attitude on the merits of such a plan. What are the objections of the Toronto Stock Exchange to this approach?

MR. GRAHAM: They are set out in the brief, Mr. Commissioner, and it is simply that we feel it is wrong for people to buy equity securities, especially the small man, until they are in the position to pay for them. To buy them at 20 per cent down, and the balance over a 9-month period, means that he is paying a pretty high rate of interest on the unpaid balance. Furthermore, he is gambling on the market going up rather than going down, and there is the risk of losing his investment and making him sour against that type of investment for the rest of his life. Under the Toronto Exchange regulations anybody can buy on a 50 per cent margin, and that is the very minimum. We would prefer that the small man would not buy on a 50 per cent margin but would pay 100 per cent down. If he has only $100, then let him buy stock worth $100 and pay for it. The next month, if he has another $100, then let him buy some more at the prevailing price at that time. We have given this matter very careful consideration and we have felt badly that we could not go along with Montreal in this deal, but we just simply could not agree that it was a good thing for us to get

people in the market on an instalment basis. The New York system, as you know, has not an instalment basis at all. When a man pays money in for certain stock shares or a fraction of shares he makes his payment, and this goes on over a period of time. This is a reasonable system, but we just could not agree to a system where you put only 20 per cent down.

COMMISSIONER LEMAN: What is the effective rate of interest?

MR. KIERANS: It is just a simple 6 per cent.

MR. REID: 7 per cent now.

MR. KIERANS: Yes, 7 per cent.

MR. REID: It is one per cent over the bank rate, the prime bank rate.

COMMISSIONER LEMAN: How do you work the marginal requirement in this case?

MR. KIERANS: We did not consider it was a margin case at all. We consider this is a firm contract to buy 20 shares of, let us say, Bell Telephone at $50, for which he pays $200 down and the balance at $100 a month. He owns the stock from the beginning, but it is instalment buying. It is a firm contract, a legal contract, and we did not believe he would get particularly sour, for this was being confined to stocks listed on the Montreal Exchange, not on the Canadian, and presumably to the senior industrials of the country.

COMMISSIONER LEMAN: Well, do I gather from paragraph 277 of your brief that the Montreal exchange might be having second thoughts about this?

MR. KIERANS: I do not think so. We have not pushed it very much.

COMMISSIONER LEMAN: It says here:

> "Since the inception of this plan in April, 1961 indications are that it has not been widely accepted by the investing public. This is due, in some degree, to the unwillingness of many of the member firms to encourage this type of equity purchase by their clients because of the additional record-keeping involved and small remuneration derived therefrom."

When the plan was instituted was it instituted with the full support of the membership of the exchange?

MR. KIERANS: Oh, yes. However, a number of our members cannot participate in it now because they are also members of the Toronto Stock Exchange. This has led to some confusion and we have thought that before promoting it aggressively through members only of Montreal and therefore not violating the Toronto regulations, that we would see whether there was some basis for coming to an agreement with Toronto. We have two or three firms actively engaged in it and they are doing fairly well with it.

MR. REID: Perhaps Ishould explain that it was with the full consent of the membership but that not all the members necessarily approved of going into the plan themselves. They had no objection to the exchange setting up the arrangements for members

who wanted to participate, but I think some of the firms were not particularly interested, either because they did not want to get on a margin basis to that extent or on an instalment basis, and others because they felt the volume of business would not justify it.

COMMISSIONER LEMAN: I gather this plan exists in New York too, does it?

MR. KIERANS: No, as General Graham said, it is a different type of plan.

MR. REID: That New York plan, I believe, is not adaptable here because of the minimum commissions.

COMMISSIONER LEMAN: Let us turn to the question of taxation you have raised in so far as individuals are concerned. We already have the 20 per cent dividend tax credit system in Canada. You suggest very generally that all these should be improved but you are not quite precise as to exactly what you would suggest. What would you do, raise it to 40 per cent?

MR. KIERANS: No. I think we are in some difficulty there. How do you talk about a capital gains tax without relating it to estates tax, personal income tax, and so on? How do you talk about increasing the 20 per cent dividend tax credit to 30 per cent without wondering if it is in Canada's best interests rather than in the shareholders' best interests, and where they can get people to buy more equities? Maybe the answer is to cancel the

20 per cent dividend tax credit, which I personally think is the solution. We might try to go back to some form of the old British system and tax a corporation on its retained earnings and therefore encourage a corporation to distribute more. Obviously, if you do not tax a corporation on what it distributes you cannot grant a credit on the dividend as it is received because no income tax has been received by the government on it. There are a variety of ways of looking at it. Why do you have to tax dividends at all, for income is presumably income out of earnings already taxed, but these earnings have been saved and not spent. In any event, we felt we were not going to make any exact recommendations on specific points because you are pleading a special interest there that might not be consistent with the over-all Canadian interest.

COMMISSIONER LEMAN: But you may have something to tell to the Taxation Commission.

MR. KIERANS: I would think so.

COMMISSIONER LEMAN: There is a rather outstanding result of some of your statistical studies here, and I am referring to the one that suggests that 35 per cent of the shares purchased were for what you call investment purposes, and I think you interpret "investment" as meaning an intention to hold for six months or longer. Is that an accident of the statistical process? Does your own personal knowledge of the way individuals buy stocks in Canada confirm that result, or not?

MR. KIERANS: I would have to ask the others.

MR. KADLEC: I would say, speaking about the survey for the moment, that so far as we were concerned we were unable to do much about it because the plans for the survey were made long in advance of the severe market sell-off that occurred in the latter part of May of this year. This may have caused a certain amount of uncertainty on the part of the purchasing individuals; a long shadow of doubt may have been cast over the future which may have distorted this. We will not know until we run similar surveys in subsequent years.

Personally, from having worked with these statistics, and the studies that have been conducted, and trying to weigh the integrity of the implications, I think there was no distortion. I think the Canadian equity buyer buys much more on a short term basis than does his American counterpart. In New York we hear of the Canadian equity market being spoken of as a ten cent speculator's paradise, but I think that is unjust.

There is the impact of taxation, and their capital gains tax weighs heavily as a factor with the Americans, and they will tend to buy into a situation where they can hold over a period of six months and so gain the advantage of the lower rate on long term capital gains.

We will not know whether there has been a statistical inaccuracy -- well, it will not be an inaccuracy because the survey was exactingly conducted, but we will not know whether there has been an anomoly because of the current election or the situation in the world markets at the time, and so on, until similar surveys are conducted in subsequent years.

COMMISSIONER LEMAN: Over the long run it would seem exaggerated that nearly two-thirds of Canadians buy for speculation.

MR. KADLEC: It seems appalling.

MR. REID: I think a good deal of the information we asked for was not accurately available, and just had to be guessed at.

COMMISSIONER LEMAN: Let us turn now to institutions. We heard from the life insurance companies in Canada in July, and certainly from their point of view it did not seem as though by just raising the proportion of their assets that they could put into equities would make much change at this time, or would have made a change in recent years. But, you make another suggestion, that the basis of the valuation of their stock ownerships could be changed. What specifically do you have in mind there?

MR. KADLEC: To what particularly are you

referring, sir?

COMMISSIONER LEMAN: I think it is the Toronto Stock Exchange's brief which suggests that the basis of valuation should be changed.

MR. STEINER: The current system of life insurance valuation of common stocks forces them to expose their annual valuation statement to rapid changes in the market, which is an undesirable feature of capital stock investment in the minds of certain conservative insurance company investment officers who seek security rather than brilliance in the performance of their departments. Bonds are more advantageous in that sense. They are insulated from market fluctuations although bond prices can rise sharply under certain conditions.

COMMISSIONER LEMAN: Exactly what valuation system would you propose?

MR. STEINER: Something akin to a moving average that would spread market changes over a period of, perhaps, five years. That would cushion the impact of drastic devaluations.

COMMISSIONER LEMAN: Do you think this has been very real in narrowing the demand from that sector?

MR. STEINER: Frankly, no. It is a common excuse, but I do not think it is a reason. I think there is a lack of impelling desire to buy common stocks in the minds of life insurance company officers.

COMMISSIONER LEMAN: They feel, perhaps, that in recent years from the way they have seen equity

investment develop that the stocks have been, perhaps, overpriced? Has that been their basic feeling?

MR. STEINER: The higher interest rates in recent years and the eradication of the mortgage field has directed their attention to a field they know well. To enter the equity field they would have to establish research departments, which the larger companies do have, but which the smaller companies do not want to establish, and they are inclined to enter an area which they understand.

COMMISSIONER MACKINTOSH: But they understand that their future liability is a sum of money certain in most cases.

MR. STEINER: I think that is recognized by the act which purposely limits their investment to 15 per cent of their total assets, so they cannot wander too far from that basic concept of fixed liability protected by a fixed asset.

COMMISSIONER LEMAN: But they are so far below the 15 per cent that that does not seem to have been much of a restraining figure.

MR. STEINER: That is true.

COMMISSIONER MACKINTOSH: It is not quite that. They have the typical obligation to pay $1,000 on a life insurance policy when the policyholder dies. There is no fear of inflation on the expenditure side, so why should they take special steps to protect themselves against inflation on the revenue side? They are in quite a different position from an ordinary business or an ordinary investor.

MR. STEINER: Perhaps the introduction of the new philosophy of variable pensions may make them more equity minded. Perhaps they might be impelled by patriotic reasons to use this large pool of money which comes from Canadians to help develop Canada as a country, and to take their share of the risk capital that the country needs.

THE CHAIRMAN: Is it not so that there are some large insurance companies that have investments far in excess of what is required to keep their actuarial position in proper shape? Some of them are, in a sense, investment trusts up to a point; is not that so?

MR. STEINER: I do not understand ---

THE CHAIRMAN: In the strict insurance business they have to provide sufficient money to pay claims as they come due. There is an actuarial calculation as to how much has to be set aside for that purpose, and that is kept in gilt-edged securities. There may be amongst their assets other assets in excess of that which may not necessarily be kept in gilt-edged securities at all; is not that right?

MR. STEINER: Such reserves do exist, and it might be the basis for broadening their scope.

THE CHAIRMAN: Yes, they are not really reserves; they compose a surplus. They do not always divide them amongst their shareholders. They invest a percentage of that money.

MR. STEINER: Some of it is re-allocated to participating policyholders, and ten per cent of it is

retained.

THE CHAIRMAN: But the 10 per cent over the years comes to represent quite a large sum.

COMMISSIONER MACKINTOSH: It is much less than 10 per cent now, I think.

MR. REID: Yes, I think they all distribute much more than 90 per cent. I think it is now 95 per cent to 99 per cent.

THE CHAIRMAN: Yes, it may not amount to very much.

COMMISSIONER LEMAN: Considering that you seem to feel that there is a lack of good grade securities in Canada, which adds to the difficulties of an already existing thinness of the markets in good grade equity securities, then if you encourage institutions to get into equities heavily would you not aggravate this thinness of markets over a period? Could you not almost dry it up, unless you greatly improve the supply end?

MR. STEINER: I think, as an industry, we want a larger supply and a larger demand.

COMMISSIONER LEMAN: You also suggest that the trustee acts of the provinces could be amended to permit more liberal use of equity investment. I think there is even a suggestion somewhere in the Toronto Stock Exchange's brief that the funds administered by the provincial governments could be freed to include a certain percentage of stocks. Have these things been discussed with the provincial authorities at all?

MR. GRAHAM: Not by the Toronto Stock Exchange.

COMMISSIONER LEMAN: Well, this Commission is not going to report to the provinces. A moment ago I asked you a question about the tax on individuals -- the 20 per cent dividend tax credit. You make other references to other taxation problems, such as the double taxation on corporate earnings in the hands of individuals as well as in the hands of the corporations. You have not been ready to make a suggestion as to how you could change all this. What would be the effect of removing double taxation? How can the government pick this up? Would it be by means of higher taxes in the hands of individuals, or something along those lines?

MR. KIERANS: Yes.

COMMISSIONER LEMAN: You have not a clear idea of what an ideal system would be, have you?

MR. GRAHAM: No, the Toronto Stock Exchange recommends that there should be a study of this made by the proper authorities. They must have heard about our brief, because they have now set up a Royal Commission to study the subject of tax incentives, and the higher structure of taxation. I do not know whether my colleagues have any suggestions to make, or not.

MR. REID: Perhaps it should be as far as we should go to say: 'Here is a case of double taxation which is inequitable, and for which the tax authorities should find out appropriate alternative sources'.

COMMISSIONER LEMAN: Yes, but the tax authorities

have to weigh all these factors, because they have to find their tax revenue somewhere.

There is another field of taxation that has undergone some changes recently, and that is the withholding tax on foreign investors. Have you observed a very violent reaction to the change that has been made there?

MR. MARTIN: Very much so, so far as the foreign investor is concerned in investing in Canadian securities. I think the interest rate that was announced last week on the $250 million loan is indicative of the price that Canada has to pay for money.

MR. REID: This is largely an I.D.A. angle. From the speculator's point of view there has not been any change in the rate of withholding, and I think the lack of foreign investment in recent months or years has been more from the lack-lustre prospect of Canadian stocks.

COMMISSIONER LEMAN: I do not want to argue with you, but I personally doubt if the withholding had very much to do with the interest rates that the federal government would pay in New York, considering where that loan was placed.

MR. MARTIN: Here again, Mr. Commissioner, we are off on an I.D.A. matter, but if you look at the historical spreads between comparable United States securities and Canadian securities I think you will find that that spread is considerably wider today than it has been over the years.

COMMISSIONER LEMAN: Well, what about the relative merits of a withholding tax on debt securities as against equity securities?

MR. MARTIN: There has been no change. There was a 15 per cent withholding tax on equity securities.

COMMISSIONER LEMAN: But let us look to the future. Would there be some advantage in leaving it on the debt security and removing it from the equity security?

MR. MARTIN: It depends upon how much money we need in Canada.

MR. REID: We want to encourage foreigners to lend money in the country, and we want to encourage Canadians to buy equities. Therefore, we should leave the withholding tax on the equities.

COMMISSIONER LEMAN: And remove it from the debt securities?

MR. REID: Yes, and remove it from the debt securities.

COMMISSIONER LEMAN: We hear from you and other people about the security transfer taxes in Ontario and Quebec. Are your representations made here because this is a real or a big deterrent, or is it just a nuisance that you do not like? Does it mean much in the way of costs?

MR. CRUIKSHANK: In many cases, the brokers will absorb part of that double transfer tax.

COMMISSIONER LEMAN: In short, would you call it a nuisance tax, that does not mean much in the way of revenue?

MR. MARTIN: It is a nuisance all the way.

COMMISSIONER BROWN: I did not catch the answer. Did you say the brokers will absorb this tax?

MR. REID: Yes, sometimes they have to.

MR. MARTIN: Rather than have two taxes, as between Ontario and Quebec the broker will absorb it.

COMMISSIONER BROWN: It is then a question of absorbing at least one?

MR. MARTIN: One of two, if it is double.

MR. O'HARA: It is a nuisance tax. Some time ago the federal government decided it was not worth having and they just threw it out. I do not think the provinces gain much money out of it, because the policing they have to do is terrific.

MR. GRAHAM: Rightly or wrongly, we felt that this was a provincial matter.

COMMISSIONER BROWN: To some extent they have allowed a set off if the transaction takes place out of Ontario and Quebec and goes through Montreal and the stock has to be sent to Toronto. There is not another transfer tax placed on it, but unfortunately it does not work that way as between brokers in the two provinces.

MR. CRUICKSHANK: Both Provincial Sales Tax Acts allow for cancellation on a reciprocal basis, but the provinces have never got together to arbitrate this.

COMMISSIONER MACKINTOSH: I have two or three questions with respect to the supply of equities following what Mr. Leman has asked. I notice in the Toronto

Stock Exchange's brief that paragraph 149 is headed: "Inflation discourages equity financing", and that is in the sense that it adds definite inducements to debt financing. On the other hand, is there not usually an active equity market during a period of inflation, as a general rule?

MR. GARDINER: Is the question: During inflation is there a more active market?

COMMISSIONER MACKINTOSH: Yes.

MR. GARDINER: I would think there is.

COMMISSIONER MACKINTOSH: This is a sort of a parallel impasse to the taxation. On the one hand there is encouragement for the issuer to put out debt securities while there is inducement on the other side for a purchaser to buy equity securities. Under our taxation it is to the advantage of companies to keep to bonds but there is a tax advantage to the investor in buying equities?

MR. GARDINER: Yes.

COMMISSIONER MACKINTOSH: Is this part of the imbalance that is sometimes complained of, that while you can work up some demand for equities there is not an adequate supply of them?

MR. GARDINER: That is true. I think that in times of inflation there is not an adequate supply: companies, instead of issuing more common shares, will issue debt securities instead.

COMMISSIONER MACKINTOSH: Perhaps we could leave that for the Taxation Commission. What about the growing tendency, which we have heard about, of doing this to finance new capital requirements out of retained earnings and depreciation allowances, on with the supply of equities? We have heard strong arguments that more is needed to be left to corporations out of their profits and depreciation allowances to provide for their financing. Does not this keep down the supply of equities?

MR. GARDINER: Yes.

MR. MACKINTOSH: Even if the profits are re-invested and the stock is split? Or does that amount to the same thing?

MR. GARDINER: It certainly keeps down the number of new issues or the additional issues of an existing security, and I would imagine, if a stock was split, in the long run it would amount to the same thing.

COMMISSIONER MACKINTOSH: What do you feel about the argument that is made sometimes that this internal financing is all right, but it would be better if companies subjected themselves to the test of the market?

MR. KIERANS: I think it is a pretty sound economic argument, isn't it?

COMMISSIONER MACKINTOSH: But like many sound

economic arguments it is not liked very much by the people to whom it is addressed.

MR. KIERANS: No, that is right.

COMMISSIONER MACKINTOSH: Does the tax structure affect this situation?

MR. KIERANS: It certainly affects the supply of equities, because of the fact it permits interest to be deductible as a cost, but not dividends. So a corporation can charge off all its interest payments against its costs, and it cannot do the same thing with its dividends.

COMMISSIONER MACKINTOSH: Quite. Do you say that monetary policy -- in the sense of monetary tightness or ease -- has any effect on the encouragement or discouragement of equity financing?

MR. KIERANS: Well, we are operating in an area, really, are we not, where corporations -- and I think it can be proven statistically -- in Canada follow the pattern in the States. About 80 per cent of their gross investment comes from their internal resources, their depreciation accounts and retained earnings. Therefore, when they look to the market for outside financing, they are in a marginal area with respect to their total requirements. They favour bond financing to the extent of about half the requirements because while there are disadvantages to bond financing, there is the lower cost. When they come to equity financing they just do not seem to consider it at all, with the exception of one or two notable areas of expanding growth firms in this country. If

there is a tight money policy there is a high interest rate.

MR. REID: It tends to lower stocks. I think it is a fact these new issues dry up.

MR. KIERANS: Your monetary tightness has general implications for the country's economy as a whole. There is not the same requirement for expansion then, and your capacity tends to be sufficient.

COMMISSIONER MACKINTOSH: Do you think of any important points on which requirements of the Companies Act or the Securities Act, even the requirements of exchanges, discourage the raising of capital in the market as against internal financing?
Are there any barriers here which could be removed or whittled down?

MR. KIERANS: They are not barriers, really, of substance in Canada. The plain fact, to a corporation financing from internal sources, is that the money is there, and there are no underwriting costs and expenses of that nature, and no difficulties of gauging the proper time, and they are not necessarily accountable to the same extent as to the manner in which they spend it. If you commit yourself to pay 6¼ per cent interest, or to meet a dividend requirement of 5 per cent you have to do it. But, on the other hand, whatever venture you are financing out of, the retained earnings and depreciation cost does not pan out, and this is buried in the general picture of the corporation. These are in the control of the managerial element of the corporation as distinct and separate from the share-

holders; your decisions are managerial and you are accountable to yourself.

MR. REID: I do not think there are any barriers under the Securities Acts or the Stock Exchange Regulations.

COMMISSIONER LEMAN: In other words, you do not feel it is the cost of raising capital that is the deterrent?

MR. KIERANS: No, I do not think it is the cost of raising new equity that is the deterrent.

COMMISSIONER MACKINTOSH: Has the demand for equity shares, in the country generally, been usually sufficient to absorb any increase in supply that emerges?

MR. KIERANS: Most underwriting issues are successful; there is no problem there.

MR. GARDINER: Has this been true just recently though? Has not there been a slowing up since tight money?

MR. MARTIN: Yes, and one wonders whether it gets back to the 35 per cent investment.

MR. GARDINER: I have heard so many dealers say they have had stocks on their shelves, this has happened time and again recently, whereas it did not happen before. I think in the last few months the demand has not exceeded the supply.

COMMISSIONER MACKINTOSH: Pre-May someone suggested a while ago people forget about price earnings ratios. Does not that indicate the demand is outrunning the supply of available equities?

MR.KIERANS: At the time, certainly.

COMMISSIONER MACKINTOSH: Too many institutions and persons were committed, so to speak, to some kind of equity programme, and they were all buying the same list of yesterday's growth stocks.

MR. KIERANS: I think you saw another indication in the after-market of some of the new issues of six months or a year ago. The issuing price was higher than the after-market, so there was an initial pent-up demand and then a more sober look at the value.

COMMISSIONER LEMAN: We have heard a great deal from various people about the difficulties of the smaller companies in raising capital of various kinds -- not just debt or equity capital, any sort of capital. In the Toronto Stock Exchange they do use, for certain types of companies, the stock exchange as a primary distribution system. Is there any way in which that could be done for smaller companies, where the cost of raising capital may be a significant factor; and is it done in Toronto for that sector, particularly because it is a lower cost way of obtaining primary distribution? Is there anything the stock exchange could do for small business?

MR. KIERANS: We are criticized in The Canadian for doing too much in assisting, in a lot of ways, the smaller corporations by accepting them for listing and studying their shareholders' lists, and so on. We all do a lot of crying about the small company, but why should not the securities of the small

company be harder to sell, because you have small people on both sides of the equity issue. You have a small company on one side and the thrifty investor on the other, ar you are expected to sell the small company's securities to this investor. The underwriter has to think of the investor fully as much as the small company. The small company, almost by definition, is a family concern or one where the management is in the hands of a single person, and as long as the one man lives the management is there. The company may not be large enough to create a sustained organization that can carry on after the man has gone. These are all things the underwriter must consider before he can sell to the small investor. On that small side of the fence you often find an individual who is extremely strong-willed and intends to run it in his own way and who might not have gained an insight into all the possibilities of going public. These are all the things inherent in an exchange helping a small company to obtain money. These things are all real and exist, and fully as many exist in the nature of a small company itself, and it is these that are later attributed to being some lack in the structure of the financial institutions in the community.

MR. GRAHAM: Mr. Steiner is chairman of our Listing Committee and can say a word about this.

MR. STEINER: I think your question relates to the financing problems of the small companies in this twilight zone of size. They may be placed by stock exchange members, but this is not done through the stock exchange itself, and it is quite separate

from their function as a broker. They will often introduce and place a small industrial issue, hoping it will be a listed security. The small industry has a chance to start and prove itself and build up an earnings record, and later on you accept it for listing and it will make subsequent financing easier; but the door is not closed because they cannot be listed easily.

COMMISSIONER BROWN: Could I ask one more question on that? It goes back to the question on provincial taxation. I am quoting from the Montreal brief, paragraph 226, where they are talking about succession duties and estate taxation.

> " A British Columbia investor or a maritime investor is less likely to buy shares of a company with no transfer office in his province, especially if the only transfer office is in Ontario or Quebec."

This is a well-known fact and, as a result, the dealers and brokers in the rest of Canada are actively working on these companies to get them to establish transfer offices out of Ontario and Quebec, to encourage investment. Is this actively pursued by the Toronto and Montreal stock exchanges, to get these particular companies in your provinces to establish transfer offices outside because this will bring more business to you from people outside these provinces? Is this an active policy you pursue?

MR. KIERANS: No, I do not think we do persuade or attempt to persuade the corporations. On

occasion, purely on a personal basis for Mills Spence or Jack Van Luven, I have gone to several Montreal corporations to try to get them to list in Vancouver. This would be to our own benefit if we encouraged them to have a transfer office in Vancouver or Halifax, or somewhere else.

MR. GRAHAM: Would you like to speak on this, Mr. Somerville?

MR. SOMERVILLE: No, we have never undertaken anything of that sort.

COMMISSIONER BROWN: You have not even considered it?

MR. SOMERVILLE: No.

COMMISSIONER BROWN: Would not this broaden the demand for these securities?

MR. SOMERVILLE: You are thinking of the deterrent because of estate duties?

MR. GARDINER: It is expensive for the small companies to have them in these provinces. It is unfortunate the situation exists that you must have it to benefit the shareholders.

COMMISSIONER BROWN: I am thinking of two of the largest companies in Canada -- International Nickel and Bell Telephone, for example.

MR. GARDINER: Yes.

COMMISSIONER BROWN: Hasn't this occurred to your exchanges, to use this as a means for broadening the demand?

MR. KIERANS: Yes, it would do.

COMMISSIONER LEMAN: Noted!

COMMISSIONER BROWN: I hope you will note it, it is part of building up Canada.

THE CHAIRMAN: As to securities regulation, there are, of course, securities commissions in most of the provinces -- particularly in Quebec and Ontario, where probably the greatest volume of business is done.

I would like to discuss for a moment the adequacy of security regulations, as we have them, and what means you may have in mind of improving the situation where it may be required. My understanding is, as to the stock exchanges, the prospectus that is generally compulsory for primary stock distribution outside of the exchanges is not required for the stock exchanges -- or does that still apply?

MR. MOYSEY: In so far as speculative mining securities enter into primary distribution on the exchange, we have what is the equivalent of a prospectus, which is called a filing statement.

THE CHAIRMAN: Yes. I wanted to ask some questions about that. Is that as to both the industrial stocks and the mining and other stocks of that character? It is not so in Quebec, is it, that the filing statement is accepted in substitution for the prospectus?

MR. REID: The Quebec Securities Commission rule on it themselves.

THE CHAIRMAN: So that that exemption no longer applies in Quebec?

MR. CRUIKSHANK: That is right.

THE CHAIRMAN: Is that with respect to the mining and speculative securities, or also in respect of the industrials?

MR. REID: Any additional issue in Quebec has to be approved by the Quebec Securities Commission.

MR. CRUIKSHANK: If distribution is going to be made in the province of Quebec.

MR. REID: Whether it is industrial or mining.

THE CHAIRMAN: No matter which?

MR. REID: It does not make any difference.

THE CHAIRMAN: Where the filing statement is permitted by the Securities Commission, as in Ontario, does the Securities Commission approve the filing statement?

MR. MOYSEY: No.

THE CHAIRMAN: It is entirely left to the exchange to decide the contents of that statement and how it is to be set up?

MR. MOYSEY: The set-up of the statement has been standard for some years. There have been some minor adjustments or improvements over the years, but it has been more or less standard since 1958, as originally set up.

THE CHAIRMAN: What is the procedure for vetting these filing statements as they come up? Does some committee look over them?

MR. MOYSEY: Yes, the committee is made up of members of the exchange. They try to make the committee up from various representative members, some

of whom are in different sections of the financial industry. They pass on the material as prepared by the permanent staff. The permanent staff prepare, with the help of the legal talent of the various companies, a filing statement. The permanent staff vets the statement, as you suggest, and makes the recommendation. They make a list of deficiencies, as it is called -- things that they feel should be further enlarged on added to the statement, or changed -- and also a recommendation as to whether it should be accepted after these deficiencies have been changed.

Then our committee discusses the matter and decides as to the final form in which the statement will be accepted; if it is to be accepted we will instruct the staff to notify the company to that effect.

THE CHAIRMAN: What is the yardstick which you apply; do you apply the same sort of a yardstick as the Securities Commission would apply to a prospectus?

MR. **MOYSEY**:: It parallels it in many ways, yes. It would be very close to it. We feel we go further than the Securities Commissions go; we are stricter.

THE CHAIRMAN: You follow the principle of full disclosure?

MR. **MOYSEY**:: Yes, full disclosure.

THE CHAIRMAN: Whatever that may mean when it is applied to different circumstances.

MR. **MOYSEY**:: Yes.

THE CHAIRMAN: But the purpose is to give to the public the information that they should have in order to make up their minds as whether or not to invest?

MR. **MOYSEY**:: That is right.

THE CHAIRMAN: How does the purchaser of securites obtain access to copies of these filing statements, particularly when the new area of shares is being distributed through the stock exchange?

MR. **MOYSEY**:: Well, with regard to the filing statements it reads:

"This statement will be printed as part of a filing statement at the expense of the applicant company and copies will be furnished to member firms and member corporations of the exchange, the Ontario Securities Commission, the press, etc., and will be held available for public distribution. If so desired, copies will be provided for distribution to companies' shareholders."

Now, I might point out that the companies' shareholders in these speculative securities very seldom have securities registered in their own name, so it is not a very effective way of doing it.

THE CHAIRMAN: They wouldn't receive it until after they bought the shares?

MR. MOYSEY: No, until after they had the shares registered in their name, so that is not very effective. The only effect comes from having it distributed to all the members of the exchange, and presumably they have to deal with a member of the exchange when buying the securities.

THE CHAIRMAN: The member of the exchange would have the documents in his office?

MR. MOYSEY: That is right.

THE CHAIRMAN: And if the customer came in he could show him one, but most of the transactions are done over the telephone, I suppose?

MR. GRAHAM: In most cases these filing statements refer to companies that have been in

existence and that have shareholders; it is not the first issue of shares, and if the Chairman would look at page 78, paragraph 182, it sets out the different items of information that must be included in the filing statement.

THE CHAIRMAN: I was just wondering when the purchaser first saw the statement and just how useful these statements are. The prospectus generally has to be shown to the purchaser, doesn't it, before he applies for the stock, before he pays for it?

MR. MOYSEY: He has to receive a prospectus, that is quite true. In the case of a listed security he doesn't receive a filing statement; the filing statement goes as far as the broker with whom he is dealing, and I have heard this criticism before and I can only suggest that Mr. Lennox of the Ontario Securities Commission pointed out that if you are dealing in speculative securities that presumably you will go to an expert, a member of the exchange and he will have the information available for you.

THE CHAIRMAN: Well, the procedure on which the Ontario system relies, so far as the exchanges are concerned, is first the full disclosure in all the statements that are made and distributed and which they have available, plus the self regulation of the exchange, the discipline of the exchange.

MR. MOYSEY: We go a little further than full disclosure; there are some things which we will not permit the company to do. We will not permit them to issue stock at less than 15 cents a share,

for instance, except under special circumstances, and if there are purchases of property where we find that the property has been owned previously by a director or an officer or a large shareholder, we will not permit that except under certain circumstances of full disclosure and shareholder approval, and there can be no mark-up in price under any circumstances, so we do take over some of the functions of management where we feel it necessary.

THE CHAIRMAN: Do you run into difficulties with respect to securities that you wish to qualify for distribution in other provinces?

MR. **MOYSEY**: Do we run into difficulties with respect to securities that we wish to qualify for distribution in other provinces?

THE CHAIRMAN: Yes?

MR. **MOYSEY**: Well, in so far as they are traded on the Toronto Stock Exchange the distribution takes place in Ontario.

THE CHAIRMAN: So that you are not concerned with the various conditions that have to be met in other provinces before securities can be sold?

MR. **MOYSEY**: We are going through ---

THE CHAIRMAN: You don't want to register in the other province because you are dealing entirely within Ontario?

MR. **MOYSEY**: That is right, and whichever member of the exchange is handling this deal, he must be careful to make sure that the distribution takes place only in Ontario and it is his responsibility

and the stock exchange looks to you to fulfill that responsibility,unless it is registered in another place.

COMMISSIONER BROWN: How do you control this; if this has been distributed through the stock exchange and the order comes in from Saskatchewan?

MR. MOYSEY: The transaction takes place in Ontario; this is where the transaction takes place, not the residence of the purchaser.

If I were to send a salesman out to Saskatchewan and sell the security there, then the transaction would take place in Saskatchewan.

COMMISSIONER BROWN: Say that an order comes through from a salesman or a customers' man operating for a broker who has a branch office in Saskatchewan?

MR. MOYSEY: Well, if this is a broker operating in Saskatchewan, we would think twice before executing the order.

COMMISSIONER BROWN: Well, is there no control over this; how do you know?

MR. SOMERVILLE: The Saskatchewan Act says if it is a security listed on a recognized stock exchange it is exempt under the Saskatchewan Act, so the dealer has that available and the order is executed on the Toronto Stock Exchange.

COMMISSIONER BROWN: If this was done through the prospectus, the buyer would have to get a copy of the prospectus and he would have a certain range of time to cancel the transaction if he wished it. Is there no arrangement by which you are to

suggest that a copy of this filing statement should go to all people who buy this stock?

MR. MOYSEY: I think that while it was traded on the stock exchange it would be physically impossible to do so. It goes -- as far as we can physically and practically make it go -- to all members of the exchange and to the press; they have every opportunity to apprise themselves of the circumstances.

MR. SOMERVILLE: I would like to point out the case a little further than simply the process by which the prospectus goes to the buyer. In industrial companies, if they are normally raising further capital by the issue and sale of a different issue of securities, they sell further preferred stock or another class of preferred stock and they make an offering by way of rights to interested shareholders. They don't, except in very rare cases, sell more shares of the same issue to the public with a prospectus off the floor with a fixed price; the reason being it is considered an impractical thing to maintain the market on an exchange and at a fixed price offering off the exchange. They avoid this if they want to sell further common shares by a rights offering. However, this is not the pattern in the mining industry, and it is considered that if there is a further requirement for capital by a mining company it cannot, except at very high cost, make a secondary rights offering nor can it sell with the prospectus off the floor.

In Quebec I believe that that is offering

by way of an underwriting and an option agreement will be done through the exchange, but there is no machinery -- except if the customer wishes it -- to get a copy of the prospectus. It is the fundamental conundrum of a fixed price offering recognized by the prospectus and an offering on exchange.

THE CHAIRMAN: Well, you are not affected too much by the provisions of the different Securities Acts throughout the country?

MR. SOMERVILLE: In this particular area you are speaking of?

THE CHAIRMAN: Yes.

MR. SOMERVILLE: No.

THE CHAIRMAN: How do they affect you in your activities, assuming they do? They are not uniform yet.

MR. SOMERVILLE: No. You mean, how does this affect us as an industry?

THE CHAIRMAN: Yes.

MR. SOMERVILLE: I don't think it does very greatly affect the industry except in the case of sales of securities across the border where in the past a sale had made a significant difference in the attitude towards this end of the business, and this is tightened up in one province, then these operators will move to another province. At the moment this is probably satisfactory; we have found a solution in the Province of Ontario, and this has been repeated elsewhere in Canada, but the differences in the Securities Acts at the moment are not a big problem.

As a matter of fact, they are coming closer together all the time.

THE CHAIRMAN: Yes, that is true, but still there are differences and when sales are to be made in other provinces where the salesman goes out and sells in other provinces, they still have to register.

MR. KIERANS: The distributor clarifies it.

THE CHAIRMAN: There are many complaints about that from other sources, and I was wondering how it affected you in the course of your business.

MR. SOMERVILLE: Perhaps some of the dealers could comment, but what I say is that in Ontario the Ontario prospectus is honoured in the other provinces by and large, and most of the dealers would file here, so the same is true in the province of Quebec; after the registration of the issue is through the other provinces would take that registration without any real problem of the type you mention.

THE CHAIRMAN: As to Quebec, the same situation applies, generally speaking?

MR. REID: I think the only problem we have run into at an exchange is that on the Canadian there has at times been some reluctance or some difficulty in obtaining the listing of mining shares on the Canadian Stock Exchange, because when they want to issue more shares they have to get it approved by the Quebec Securities Commission rather than bringing it directly to us, and in Ontario they can deal directly with the stock exchange and sometimes they say they would rather do it that way; that is the only thing I can recall.

MR. MOYSEY: I can see the criticism if we stated that the filing statement committee is much too strict and that they have to apply to the Canadian exchange!

COMMISSIONER BROWN: These are the forces of competition.

MR. KIERANS: I must say that we are quite happy that the Quebec Securities Commission is passing judgment on this and not us, so if they are going down to Quebec they are going down to the Quebec Securities Commission and not directly to the stock exchange.

THE CHAIRMAN: It has also been suggested to us in certain places that it would be desirable to have one uniform security regulation law applicable throughout the country. What are the opinions of the stock exchange on that problem?

MR. GRAHAM: There is no question about the opinion of the Toronto Stock Exchange; they feel a federal securities law is not needed; that the provincial legislation is quite satisfactory now and has become more satisfactory as years have gone by and there is more and more uniformity in the provincial acts across the country, and if we had federal legislation it would have to give, one assumes, administration of the regulations under the federal authority, and this we feel would lead to much additional cost, as it has in the United States and delays in financing the industry and more bureaucracy than we have under the provincial system.

THE CHAIRMAN: You are assuming that the

provincial commissions would still be in operation?

MR. GRAHAM: That is right.

THE CHAIRMAN: So that you would have an additional commission over and above that?

MR. GRAHAM: Yes.

THE CHAIRMAN: Even if it were possible to eliminate all the provincial commissions and have only one central body would that be acceptable or not?

MR. GRAHAM: Even assuming that the provincial commissions were eliminated and the whole thing came under a federal commission and a federal administrator, we still feel that it would be the wrong thing to do because of the difficulties that we foresee in getting issues approved, and so on, because experience has shown in the federal field there is a great reluctance to decentralize or delegate authority. We find this in other areas of government, and we feel that the same thing would likely apply in the field of securities administration and this would mean that a great many decisions would have to come to Ottawa, be referred by the local federal representative who might be in Montreal or Toronto or Vancouver, and so on, to the head office in Ottawa, with all the delays that this would very likely entail and all the additional expense. So that even though the entire field was taken over by the federal authorities we in Toronto feel that this would be wrong; that we are now operating in a reasonably satisfactory way and we feel we have many advantages over the system that they have in the United States and we very strongly

urge the retention of the provincial authority and the provincial administration.

THE CHAIRMAN: What are your views?

MR. KIERANS: Our views are just about the same. I think it goes back almost to what we said this morning about the necessity for having more than one stock exchange in this country. The country is different, and one would feel that the creation of a Quebec Securities Commission by the Quebec government would be charged with working over the framework of the province's desires for economic growth and expansion, and that it would be geared that way.

I have the further feeling also, like General Graham, I think Churchill did say this, "If you create 10,000 regulations you will lose all respect for the law", and to a large extent the S.E.C. has over-regulated the industry in the United States and it is growing into -- it has been said before -- into some sort of a monstrosity where it could collapse; it will not collapse of its own weight, but people might wish it would.

The delays and the difficulties and the costs of what they are doing in the United States is not something that I think should be borne by this country, but it is something that would inevitably happen again. I am not a broker. If I felt that a central S.E.C. would be good, I would say so.because I do not care; but I do not feel it would because I do not think they would understand the problems, as I said before, in British Columbia or Quebec, the peculiar problems of those provinces. You cannot fit all the different aspirations and different ways of doing things into some computer machine and say, "This regulation will apply all across Canada." There is still a great need for uniformity of legislation, but the Commissions themselves are getting together and they are solving most of their problems.

COMMISSIONER BROWN: I wonder whether we could just discuss in a little more detail this primary distribution through the stock exchange? Would you describe for the record just how it operates, how the underwriting and option is made up, how the broker operates who is distributing it and what happens if something occurs which causes the public to become very optimistic and the stock goes up? Who gets the benefit, the public or the issuing company or the broker? Would you deal with these points?

MR. MOYSEY: If I could run over this very quickly, I would say that any business of this type on the exchange must go through a member of the

exchange. The stock exchange takes the view that its members are quite experienced in this type of business, that they know what they are doing, and the exchange looks to the member who is taking the deal to have a proper market on that security and be responsible for proper marketing of this primary distribution, and each member is forced to sign a statement to this effect; "If I am acting on behalf of a client, whoever the underwriter is, that I realize I have the same responsibility as if I was underwriting this security personally." So you have experience and responsibility. Now, the broker from there has to follow certain regulations. I do not know just how technical you want me to become. I see that you have Circular No. 5 in front of you. Is there any particular heading or part of this circular that you would like me to enlarge upon?

COMMISSIONER BROWN: I have just been informed that the court reporters are going to reproduce everything, including this circular, so that it is not necessary to read it into the record.

MR. MOYSEY: I see. Is there any part of this ---

COMMISSIONER BROWN: Perhaps you could run over an example of how it is done.

MR. MOYSEY: All right. I shall run over this quickly more or less item by item. No option without an underwriting will be accepted. In other words, the underwriter or promoter must put up some

hard cash first. Secondly, we have no delayed underwritings. There is none of this sort of thing: "We will give you $5 today and the rest when you catch me." It has to be done immediately.

The minimum underwriting price is to be 15 cents a share. There is an exception there. The basic exception to this 15 cents a share is where we find that a company has less than $20,000 in quick assets. We feel there that the company needs special help and we will permit underwritings of as low as 10 cents a share in that case.

Another exception is if a company has negative working capital, in other words if it owes $20,000 or more, we feel in that case you cannot allow that company to be underwritten while it is in debt unless the underwriting is sufficient to take it out of debt, and also provided that there are sufficient funds to do whatever work is recommended in the engineering report. Another alternative would be to tell the company that it must go to the creditors and have the creditors agree to subrogate their debt until whatever work is recommended by the engineers has been accomplished or until such date as may be satisfactorily arranged.

As to the minimum amount that can be underwritten, in the ordinary case it is $30,000. I think that is more or less self-explanatory. There is a limit on the amount of capitalization up to $5 million of shares, and if it is over $5 million we would refer it to the board of directors to see

what type of action they would take on an underwriting.

Next is the intial price of an undertaking. This shall be at not more than certain discounts from the market but there has to be some profit to the underwriter. This circular outlines the amount of the discount that takes place. I might point out that in practice it is very difficult to keep the news of an impending underwriting from appearing and getting around the street, with the result that these prices tend to rise, and in some cases it is necessary to allow an underwriting below the market price.

There is a limitation of one million shares on any underwritten option agreement. There could not be more than that. I do not know how much detail you want in here?

COMMISSIONER BROWN: Perhaps you would describe how this acceleration clause works?

MR. MOYSEY: All right. The principle behind the "acceleration clause" is that after an underwriting takes place presumably the money goes into the treasury and the company starts, for instance, drilling, and so on, and if that drilling is successful and encouraging then the price of the security can rise very rapidly. Public interest develops very quickly, and the acceleration clause attempts to make sure that this public interest does not dissipate itself solely in driving the price of the security up without any benefit to the company. In other words, we make certain that the

underwriter is not capable of just sitting back and watching the price of the stock go up out of sight. The acceleration clause forces the underwriter at certain prices to take down his option stock whether he wishes to or not. Turning over to the back page of Circular No. 5 you will observe that when the price of the security rises to certain percentages above the price of his option, that option becomes a firm commitment to the extent of half the stock that is traded on the floor of the exchange.

COMMISSIONER BROWN: This is one point I wanted to have clarified. Is this trading on the floor of any stock exchange in Canada?

MR. MOYSEY: No, the Toronto Stock Exchange because that is where the primary distribution is taking place.

MR. SOMERVILLE: Not just there.

MR. MOYSEY: I stand correctęd.In any event, the underwriter is forced to take down the option stock and put money into the treasury of the company. The amount of the profit, even under the most optimistic conditions, is limited until such times as he has completely financed the company to the extent of the original underwritten option agreement.

The underwriter must also agree not to sub-underwrite or sub-option any of his deal without permission of the stock exchange. Therefore, we know whom we are dealing with. There is one certain problem that comes up, and in order to protect the underwriting group in some cases we have allowed them

to send in a letter, which is known as a letter of committal, to the exchange, in which they state that they propose to underwrite so many shares at such and such a price. That letter is time-stamped when it enters the exchange, and it is on the basis of this, compared with the price of the security at the time the letter was received by the exchange, that we determine the amount of profit that will be allowed. In other words, it might take some time to get lawyers and directors to sign documents, and so on, but this is actually the moment at which the agreement was made with the company and this is the price with respect to the security at the exchange at that time, and that is the basis on which we determine the terms of the underwriting option agreement. I might say there would be exceptions to this. If in our opinion the price of the security were to rise too high so that there would be an unfair profit, we would insist that the underwriting be at a higher price.

COMMISSIONER BROWN: Is there any provision at any time where, after the agreement is signed and the stock has been underwritten and these options are outstanding and the price of the stock goes up very quickly, there is a readjustment on the option prices so that the company gets the advantage of this increased price?

MR. STEARNS: No, sir, but we have brought considerable pressure to bear and arranged for other underwriters to supply more stock in certain cases, cases where the news on the property did not justify

the market action that was taking place.

MR. MOYSEY: I think what Mr. Stearns means is that if after this escalator clause has operated so that the underwriter has taken up all his option stock, and the demand is still there and it starts driving the price of the security up [illegible] again and the company is not fully financed, then the exchange uses very strong pressure on the underwriting group to have them come in and take another underwriting option agreement.

MR. SOMERVILLE: There is one feature of the filing statement that we think is of particular importance, and that is that it allows a follow-up of subsequent use of funds. Under the Provincial Securities Act there is no requirement on the company that once it has raised the money by the sale of shares to account for the expenditure of that money, other than a civil action being instituted by a shareholder. Our filing statements, however, provide that an inquiry can be made of subsequent use of funds, and this is done through annual reports and subsequent filing statements, to make sure they use the money for the purpose they intended to use it for. We think this is a serious weakness in the existing Companies and Securites Acts in the provinces, and we are in effect showing a way in which there could be a follow-up of this sort.

MR. MOYSEY: I should like to read for the record, Mr. Commissioner, the definition of material change.

COMMISSIONER BROWN: I think it is in the brief.

MR. MOYSEY: It also appears on Circular No. 6.

COMMISSIONER BROWN: In your brief you make some recommendations -- I am dealing with a different subject now -- about possible amendments to the Criminal Code. Can you be a little more specific about what you wish to have covered?

MR. GRAHAM: I think this has to do with market manipulation, Commissioner Brown?

COMMISSIONER BROWN: Yes.

MR. GRAHAM: As we say in the brief, it is extremely difficult to identify market manipulation because certain things can be done which are perfectly legal, or are accepted as being legal, which do affect the market prices of stock, and these things cannot be interpreted as market manipulation. The section of the Criminal Code to which we refer here, Section 325, goes some way toward preventing market manipulation, but it does not go as far as the Securities Exchange Act does in the United States. As Appendix 48 we have put in the appropriate section of that Act, which you will find goes further than our section in the Criminal Code. The way in which it goes further is to prohibit a series of transactions which result in a rise of the price of stock, and this is not included in our Code.

We did not make a firm recommendation that the Criminal Code be amended to include a provision

such as Section 9 of the Securities Exchange Act because we felt there might be great differences of opinion in regard to this, and it is a subject which the Federal Department of Justice should look into very carefully before it starts to amend our law to bring it exactly in line with the American law. We have suggested there should be discussion with the various stock exchanges and various provincial securities administrators with a view to deciding whether it is necessary to make such a change.

COMMISSIONER BROWN: On the question of take-over bids, have you by any chance studied the suggestions that were made in the Jenkins' Report?

MR. GRAHAM: Yes, I have.

COMMISSIONER BROWN: Have you any comments on this? Do you consider that they might be applicable or not be applicable?

MR. GRAHAM: Well, by and large I would say they are applicable, but in saying that I am speaking for myself because this has not been discussed in detail with the board of governors or the members of the exchange, but the code that is recommended by the Jenkins Committee, and I think you have read it, Mr. Kierans.---

MR. KIERANS: No.

MR. GRAHAM: --- does seem to cover the type of cases that have been occuring here and that have led to considerable criticism and some inequities.

Now, what we propose to do -- and we have been in touch with the Montreal Stock Exchange about this to ask them if they will go along with us -- is to discuss this with the Canadian Bankers' Association, the Trust Companies' Association and the Investment Dealers' Association, together with the Vancouver Stock Exchange, the Toronto Stock Exchange and the Montreal Stock Exchange, in an effort to arrive at a code which would be agreeable to those six organizations, and which I visualize would be along the lines of the recommendations in the Jenkins Report.

The reason why we are suggesting this is because in the take-over field -- and we can assume that there will be more take-overs and mergers in the future, because it is a sign of the times -- the banks are definitely involved, the trust companies are invariably involved, and so are the stock exchanges, so it is our thought that by having a discussion between these six organizations we can perhaps come up with something. But, if there is in the near future a committee to study amendments to the company legislation in Canada -- both the Dominion Companies Act and the Provincial Companies Acts -- I would hope that something of this could be included that would take care of some of the problems that have been experienced.

COMMISSIONER BROWN: Perhaps you would all get together before January when we are to see the bankers, and come up with your group recommendation.

MR. GRAHAM: I hope we will get together before December.

COMMISSIONER LEMAN: There is just one question of detail that I would like to have answered, if possible. In paragraph 189 (b) of the Toronto Stock Exchange's brief there is cited the figure of $53 million received from options and underwritings, and that money was turned into the treasuries of these companies that were financed in the year 1957. Do you know what proportion that is of the total that had been bought by the public?

MR. GRAHAM: What proportion was paid by the public in the primary financing ---

COMMISSIONER LEMAN: What went into the companies' treasuries is what proportion of the total paid for shares that have been distributed?

MR. STEARNS: No, we do not know that.

COMMISSIONER LEMAN: Is not that ascertainable?

MR. SOMERVILLE: We do not think so. We have spent some time studying this, but we have not been able to arrive at a representative figure. This is the recorded price of the securities that were taken out, but at what time we do not know. These underwriters are not members of the exchange.

COMMISSIONER LEMAN: But there must be at least some correlation between the amount of money raised by the primary distribution in the form of capital for those companies that had used this facility, and this figure. You would not hazard even a guess as to what it would be?

MR. SOMERVILLE: No, I do not think you can do it in that way. You would have to know what the

underwriter did with his stock -- did he sell it at the time he took it down; did he sell it before he took it down; did he sell it six months later, or a year and a half later? You simply do not know that with respect to those particular shares.

COMMISSIONER LEMAN: In that sense it is a little difficult to gauge the efficiency of that system, is it not?

MR. SOMERVILLE: That is granted.

COMMISSIONER LEMAN: That is, as compared with the straight system of distributing through underwriters.

MR. SOMERVILLE: That is right. We are hopeful that we have not made any claim in that paragraph that is unjustified. We make no claim as to the cost of this procedure.

THE CHAIRMAN: Thank you very much, gentlemen, for your submissions. I am sure that the members of the Commission feel with me that a tremendous amount of work has been put into these two briefs that have been discussed today, and we wish to thank you for the great care that you have taken, and the research you have done, in order to assist us in our task. I have not the slightest doubt that as a result of this discussion we have learned a very great deal, and are now apprised of many important aspects, and our minds have been clarified in many respects. We are very much indebted to you.

MR. GRAHAM: Thank you, sir.

THE CHAIRMAN: We shall now adjourn until tomorrow afternoon at 2 o'clock when we shall hear the brief of the Canadian Manufacturers' Association.

--- Adjournment.

2

Royal Commission on Banking and Finance

MONTREAL STOCK EXCHANGE
CANADIAN STOCK EXCHANGE

Hearings
held at
OTTAWA

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BRIEF TO THE ROYAL COMMISSION ON BANKING AND FINANCE

SUBMITTED AUGUST 1962 BY THE

MONTREAL STOCK EXCHANGE AND THE CANADIAN STOCK EXCHANGE

Paragraphs

1. Part I of our Submission describes the history and development of the Montreal and Canadian Stock Exchanges with particular reference to the distinguishing characteristics of the two markets and the expanding role and function of the Exchanges.

2. There is increasing cooperation between the Exchanges and other institutions, including the Securities Commissions, Investment Dealers' Association, Associations of Security Analysts, etc. The primary aims of such cooperation are to adopt uniform rules of conduct and methods of operation and to raise the standards and educational requirements of the industry. (See Part II).

3. A distinction should be drawn between the acquisition by foreign interests of Canadian equities for the purpose of acquiring management control and a similar acquisition by non-residents for investment purposes only. Studies have been commenced by the Montreal and Canadian Stock Exchanges which will reveal geographical changes in the composition of the shareownership of listed Canadian corporations. 130 - 142

4. The percentage of the population owning shares is astonishingly small according to the very meagre data available. However, both in composition and as a fraction of their respective populations the shareowning public of Canada and

the United States appear to be almost identical. Canadians are not less inclined to acquire equities than are Americans. However, markets here are, of course, much thinner and as a result are maintained at a higher unit cost. Available Canadian statistics suggest that approximately 3 per cent of the Canadian taxpayers received nearly 60 per cent of all dividend income paid by taxable individuals in 1959. American studies have indicated that an even smaller percentage of shareownership exists in that country. 143 - 184

5. Public individuals in Quebec owning common stocks represent a far smaller percentage of the population of that Province at all income levels than is the case in the rest of Canada. The investor in Quebec, on the other hand, appears to hold a larger percentage of his portfolio in equities than does his Ontario counterpart. 162,171, 180

6. Of all the factors that condition the individual's propensity to acquire equities, the most significant is his income level. This omnipresent factor makes it difficult to isolate other factors such as age, sex, occupation, and place of residence, although these are known to exert an influence in themselves. Much study remains to be conducted in this area, particularly in the field of motivation research. 147 - 162

7. The position occupied by Life Insurance

Companies and Trust Companies expressed as a percentage of the total values listed on the Montreal and Canadian Stock Exchanges is of minor importance in the overall demand for equities in this country. Recent liberalization of the investment provisions of the Canadian and British Insurance Companies Act is not expected to bring about any substantial change in this situation in the short run. We recommend against the imposition of restrictions upon the investment powers of pension fund trustees. Any legislation changes which will enable institutional buyers to increase their equity holdings within reasonable safeguards are to be encouraged. To this end, we recommend that the Provincial Governments should give immediate consideration to amending their respective Trustee Acts to permit the acquisition of investment grade equities by trustees administering funds subject to these enactments. 185 - 188
202 - 209

8. The remarkable growth of the mutual fund industry is noted. These companies have stimulated a demand for equities that is making the industry an increasingly important factor in equity markets 193 - 196

9. Industrial corporations, investment dealers and private investment trusts are not major factors in equity markets 197 - 201

10. In the U.S.A. studies have clearly

revealed that the equity purchasers, particularly those in the higher income bracket, are profoundly influenced by the incidence of taxation in selecting investment media. We believe that the same attitude prevails in Canada. One excessive tax burden and the complex legislation under which it is imposed are draining off resources and skills vitally needed by productive enterprises to ensure the continuing growth of the Canadian economy. A comprehensive study of these problems is mandatory, as is the expeditious implementation of the resultant recommendations. An increase in the dividend tax credit will do much to stimulate an increased demand for equities. 219 - 222

11. We concur in the recent amendments to the Income Tax Act which require that ultimately 90 per cent of the earnings of investment companies and pension trusts must be derived from Canadian sources as a condition precedent to special tax concessions. However, the imposition of a 15 per cent withholding tax upon investment income payable to non-residents has created severe distortions within the economy and a curtailment of investment flows from abroad. It is our urgent recommendation that this too be reduced to the original 5 per cent levy formerly in effect. 220 - 222

12. Differing formulae for determining the location of assets exist under the Federal Estate

Tax Act and the Ontario and Quebec Succession Duties Act. Similarly, double taxation can result under the security transfer tax acts of Ontario and Quebec. The required changes in each act would not impair provincial sovereignity or seriously reduce revenues to the governments concerned and we suggest that such reciprocal modifications would increase the mobility of capital in this country. 223 - 232

13. Investors resident in France prefer to acquire interlisted Canadian securities in the United States because of the absence of duplicate transfer charges as a result of the Franco-American Tax Treaty. We recommend that similar exemptions be negotiated into the reciprocal tax convention between Canada and France. 223 - 240

14. The provisions of the Corporations and Labour Unions Returns Act should be amended to permit unimpeded public access to the financial returns required to be filed thereunder. 241 - 243

15. The first transaction study of the Montreal and Canadian Stock Exchanges was conducted during June 1962. The results were comparable to recent surveys of the New York Stock Exchange with respect to the volume of transactions represented by public individuals except that a greater percentage of Canadians appear to favour short-term trading opportunities.

The volume of trading conducted by institutional buyers was a much higher percentage of total transactions in the U.S. than was the case in Canada. The percentage of members' transactions was greater in Canada than the U.S. and can probably be attributed to arbitraging practices. 244 - 282

16. We agree with the need for fuller and more frequent disclosure of financial and operating information of public corporations. The Exchanges have a great responsibility in this regard but the primary impetus should come from a revision of the Companies Act which would treat listed and unlisted companies equally. Otherwise, there would be a severe disadvantage to the listed corporations. 287 - 291

17. There is a fundamental need for a basic and uniform securities act to be enacted by each province. We do not recommend the establishment of a federal securities commission. 283 - 306

18. We do not anticipate any marked increase in the sale of equity participation in Canadian subsidiary operations by foreign corporations. We believe that any legislation designed to force this issue would create more problems than would be solved. At the present time, we need more complete information on the operation of subsidiaries such as would be available if information filed under the

Corporations and Labour Unions Returns Act were made public. 307 - 314

19. Trends in corporate financing in Canada follow the same pattern as disclosed by similar studies in other countries. Canadian corporations finance growth and expansion largely from their own operations with diminishing reliance on the capital markets. Attempts to change this pattern by legislation are likely to cause serious difficulties for Canadian corporations and to damage their ability to compete in world markets. 315 - 347

BRIEF TO THE ROYAL COMMISSION ON BANKING AND FINANCE

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PART I

HISTORY AND DEVELOPMENT OF MONTREAL AND CANADIAN STOCK EXCHANGES

1. Every stock exchange in operation today has had its antecedents and origins in conditions indigenous to the economic community of which it is a part. Its early foundations have had profound effect on eventual evolution of the exchange as an institution of finance and as an auxiliary function to the capital market of the region or country which it serves.

2. The London Stock Exchange, by way of example, traces its origin to the latter part of the seventeenth Century when a prudent William III initiated the practice of public long-term borrowing on a regular basis to finance the national debt. This practice required professional raisers of funds or "stock-jobbers" who later formally organized as a "club" in 1762. In turn, the "club" became the London Stock Exchange in 1801.

3. The New York Stock Exchange was founded in 1792 to provide a market for bonds which funded the debt of the Revolutionary War, and for stock of the United States Bank.

4. In Montreal, a group of brokers were meeting regularly by 1832 to trade the shares of business and commercial enterprises which characterized the semi-colonial economy of those days. Subsequent reorganizations resulted in the formation of a Board of Brokers in 1866; this was an immediate predecessor to the Montreal Stock Exchange which was incorporated by a charter of the Province of Quebec on January 28, 1874. The Charter

has since been amended in 1951.

5. Through growth and evolution, the Montreal Stock Exchange developed standards of listing and trading which were quite stringent. By the 1920s there were traded, outside the Exchange's facilities, securities of numerous companies who were unable to comply with these rigid requirements. Adhering firmly to their belief that any organized central market is always more effective than any unlisted market where transactions are seldom marked or publicly reported, a group of brokers already members of the Montreal Stock Exchange caused the formation of the Montreal Curb Market in 1926. It was an Association with much latitude in its original terms of reference for the formation and promulgation of rules and regulations governing its operations. Its original Articles vested in a Board of Management substantially wider powers than those allowed the Governing Committee of the Montreal Stock Exchange under its charter. Since 1953 the Curb Market has been known as the Canadian Stock Exchange.

6. The Montreal financial community then has two stock exchanges. This dual-exchange development grants recognition and accommodation to the fact that all securities fall into one of two broad classifications; the "investment-type" security and the "speculative-type" security. The existence of the two markets side by side also serves to demonstrate problems affecting the industry as a whole, including the difficulties attendant upon disclosure by natural resources companies, primary distribution of treasury shares through a stock exchange,

and the amount of responsibility carried by a stock exchange in protecting the interests of shareholders and of the public.

7. The growth of the Montreal Exchanges has been substantial and is probably in direct proportion to the growth of the country's economy:

- in 1874, the year of incorporation, 63 issues traded, with an average volume of 800 shares per day.
- in 1914, the number of issues listed had grown to 182 and daily volume had attained 10,000 shares.
- in 1927, the combined trading volume of the Montreal Stock Exchange and the Montreal Curb Market was in excess of 27 million shares.
- in 1950, the combined value of listings on the Montreal Exchanges had exceeded $10.5 billion, and annual volume for 694 issues totalled 117 million shares.
- in 1962, the combined trading volume to the end of June exceeded 88 million shares, and the value of 760 issues listed was approximately $45 billion.

8. A review of past trading records in the Exchanges' archives reveals that the Exchanges have been, and are, a mirror of the economic activity which has characterized Canada from 1874 to the present date. The review also indicates significant changes in the industrial and commercial life of the nation, and shows

how investment opportunity in most areas has expanded, while in other significant areas it has contracted.

9. To illustrate:

- the earlier years provided an opportunity for ownership in a relatively large number of banks, insurance companies, and transportation companies; it is a matter of record that such investment opportunities today on a public basis are extremely limited.
- today, the client of a Montreal broker has a choice of buying shares in oil producing and refining companies, in a variety of retail merchandising organizations, paper companies, distilleries and a number of miscellaneous manufacturing concerns. These opportunities were certainly not available to the investor prior to 1900.

10. The review also provides another meaningful commentary on the changing role of a stock exchange member; whereas bonds were traded in large quantity on the stock exchange in earlier days, there are today no bonds listed on either of the Montreal markets. The trading of bonds has long since devolved into the markets organized by the investment dealers (in many cases affiliated with Stock Exchange members, and often with identical ownership) and the banks, where the relationship with a client is, in almost every instance, as principal-to-principal with a spread in price as remuneration, rather than as principal and agent with a commission as remuneration.

PRESENT ORGANIZATION, OPERATION AND FUNCTIONS OF THE MONTREAL AND CANADIAN STOCK EXCHANGES

11. There are three essential elements or principles upon which the operation of a stock exchange is based.

a) Personal trust - the underlying precept of broker-client relations which has prevailed since the beginning of the securities brokerage profession.

b) Marketability or liquidity - the facility which ensures that a security may be readily acquired or sold at any given time by the investor under well defined rules and conditions governing trading and commission.

c) Disclosure - the dissemination and publication of information pertaining to:

- all transactions which are executed under public surveillance on the exchange.
- data, required under the terms of a listing agreement, relative to the activities of all companies whose shares are listed on the exchange.

12. With these principles in mind, we proceed with comments on the present organization, operation and functions of our two exchanges together with likely future developments.

ORGANIZATION

13. In some countries, for example Switzerland and Germany, banks fill the role of both brokers and investment dealers. However, the stock exchange as an institution still exists in these areas with membership

being held by the various banks.

14. Membership in the Montreal and Canadian Stock Exchanges is limited to individuals and is generally referred to as a "Seat on the Exchange". Seats evidencing membership must be registered in the individual's name.

15. The number of seats on the Montreal Stock Exchange is limited to 80, and on the Canadian Stock Exchange to 100. Seats are transferable, and it is always possible to apply for admission by buying a seat and becoming a candidate for membership. A candidate must be a British subject of the male sex, at least 21 years old, and in the free exercise of his rights. His candidacy must be proposed by one and seconded by another existing member. If, after inquiries are made, the candidate is judged to possess the necessary qualities of character, responsibility and financial solvency, his application is posted for a period of 28 days, following which balloting by the membership takes place. One adverse vote in five is enough to exclude the candidate. When elected, the new member must obtain the transfer to him of a seat within 10 days after the ballot, failing which he voids his election.

16. The word "seat" refers to the early days when brokers traded while seated and today may be taken simply to mean a right of entrance. Seats are transferable subject to conditions laid down in the Exchange by-laws. Their price, on the Montreal Stock Exchange, reached a peak of $225,000 in 1929 and on the Canadian Stock Exchange, $50,000 in the same year. Recently, a seat sold on the former Exchange for $40,000 and on the

latter for $12,500. Trading activity on the floor is the principal determinant of seat prices. Demand, however, diminished a few years ago when the ruling concerning the required presence of the member on the floor during trading was amended. Today, members may appoint attorneys to represent them on the floor, but attorneys are subject to the same strict regulations as the members, leaving the members free to look after other aspects of their business.

17. Conditions for membership on the Canadian Stock Exchange are somewhat the same as those prevailing on the Montreal Stock Exchange, save that it is not necessary for the candidate to be a British subject.

18. Prior to 1953 sole proprietorships and partnerships were the only form of business organization granted recognition by the Exchanges as member firms. In 1953 the by-laws of the two Exchanges were amended to permit recognition of limited companies as member corporations. At May 31, 1962, forty-seven of the eighty-nine members dealing with the public were member corporations. The advantages of a limited company appear to outweigh those of a partnership and there is every likelihood that in the not-too-distance future the active membership of the exchanges will just about entirely consist of limited companies.

19. The element of individual responsibility, so much a cornerstone of broker-client relationship, still remains. Members are still elected by ballot, and all the disciplinary provision of the by-laws and regulations are predicated on the responsibility of the individual

member, who is accountable for the acts of the firm or corporation on whose behalf he holds the seat.

20. It seems likely, however, that the Charter and by-laws of the Exchange will be revised to take cognizance of things as they are, that is, that stock exchange memberships today are, in the majority of cases, partnerships or corporations, and individual members hold seats only nominally and as a formality. This would not diminish the disciplinary powers of the Exchanges, nor their continued surveillance of members' activities and the financial positions of members. Although the formalities of balloting may be removed, applicant member partnerships or corporations would be, as now, subject to intense scrutiny prior to approval.

21. At May 1, 1962, sixty-five persons held seats on both the Montreal Stock Exchange and the Canadian Stock Exchange. This resulted in an overall combined membership of one hundred and fifteen members for the two exchanges. The membership may be classified as follows:

Member firms and member corporations engaged in business and dealing with the public	89
Floor traders (not dealing with the public)	10
Inactive	5
Extra memberships held by partners or directors of member firms and member corporations shown above as dealing with the public	11
	115

22. The head offices and main base of operations of the eighty-nine member firms and corporations are located in the following areas:

Quebec and the Maritime Provinces	45
Ontario	30
Manitoba	3
British Columbia	1
New York State	10
	89

23. Fifty-six member firms and member corporations also hold membership in the following stock exchanges:

Toronto	48
Winnipeg	13
Calgary	9
Vancouver	11
New York	10
American	10

24. During the past twelve years the number of member firms and member corporations dealing with the public has increased by approximately 25 per cent. This net increase is broken down as follows:

Additions:	
Established firms and corporations of other stock exchanges or securities associations	40
New firms and corporations	10
	50

Resignations:

Voluntary and no longer in business	15
Voluntary and still in business	3
Securities license cancelled	2
Asked to resign due to financial difficulties	5
Bankruptcy	1
Mergers	6
	32
Net increase	18

25. It is interesting to note that forty-four of the two Exchanges' eighty-nine members dealing with the public are also members of the Investment Dealers' Association of Canada, while another twenty-five members are closely affiliated with members of the I.D.A. In other words between 75 per cent and 80 per cent of our members who deal with the public are also members or affiliates of members of the I.D.A. A matter of further interest is that between 60 per cent and 65 per cent of the members of the I.D.A. are either members or very closely affiliated with members of a recognized stock exchange in Canada. Closer observation of the relationship between affiliated organizations involving a stock broker on the one hand and an underwriter or bond dealer on the other, reveals that in many cases the same staff are performing the same functions for both organizations. This is particularly true in the case of sales representatives. This close association between two separate entities may develop to the point that some day

such affiliated organizations may merge or consolidate to form one organization which would offer both underwriting and brokerage facilities to clients.

ADMINISTRATION

26. The Montreal Stock Exchange is administered by a Governing Committee, and the Canadian Stock Exchange by a Board of Management. Members of the Committee and Board are elected annually at the general meeting of the Exchange membership. To assist them, sub-committees are formed from the membership to supervise such functions as listings, floor trading, public relations, building, etc.

27. Consideration is being given to a proposal which would make all partners of member firms and all directors of member corporations eligible for election to office, hitherto largely restricted to members or seat-holders, thus increasing the number of potential candidates. The Exchanges are also considering the advisability of broadening the composition of their respective governing bodies to include two or three qualified representatives from the public at large. These enlarged governing bodies would be chiefly concerned with broad lines of policy, delegating administrative authority to a smaller executive committee appointed from within their membership which would work in liaison with the permanent executive officers.

28. In earlier days, the elected members comprising the governing bodies were responsible for policy, executive decisions and administrative functions. With

the greater portion of the members present at the Exchange, there was little delegation of executive or administrative discretion, and the personal connotation was paramount in every phase of the operation.

29. The functions of the Exchange in its role as an association have expanded greatly beyond the point where it may be effectively administered on a day-to-day basis by its elected officers - hence the requirement for an enlarged "permanent" or appointed staff, which even now may not be adequate. The Exchanges are staffed with a permanent organization. They have at their head a full-time President chosen from outside the Exchange membership and he is presently seconded by two Vice-Presidents who are also non-brokers. In addition to working closely with the Governing Committee and the Board of Management, the President exercises direction over all aspects of the Exchanges, decides the role that they should be playing in the country's economy, directs the study of particular problems to be solved, takes the initiative in promoting Exchange development, and represents the Exchanges in their relations with the public, other North American and European exchanges, public bodies, etc. There is therefore developing a continuity of direction and management which was not always possible with elected officers.

30. The trend, then, has been from individual seat-holder and small partnership, to large partnerships and member corporations, who now provide a wider range and variety of investment services, including security analysis and portfolio management. There has been a

consequent delegation of responsibilities by principals or owners to the permanent staff of the Exchanges to ensure that the principle of trust and confidence will be responsibly maintained.

FUNCTIONS AND OPERATION

31. The main purpose of the Montreal and Canadian Stock Exchanges is to provide a market place where many buyers and sellers trade in securities through their brokers who act as agents. Other functions and facilities provided include supervision of trading activities, recording and publicizing transactions and quotations through various media of communications, and ensuring that the required minimum standards of disclosure are complied with by companies whose shares are listed for trading on the Exchanges.

Trading

32. The quality of mobility attaching to share capital has demanded that securities be readily marketable at any time. The Montreal Exchanges are always ensuring to the greatest extent possible that the essential machinery for trading is functioning well. Their object is the assurance that transactions are executed under open conditions ~~and~~ in the light of the latest important information relative to prices of the securities listed, to ensure that a member broker is doing the best possible for his client.

33. While markets in securities develop in a very practical way, marketability from one stock to another is difficult to predict even though the essential underlying theory is constant and valid. The Exchanges

are basically concerned only with providing and maintaining the essential features of the market. This requires a continuing review and assessment of the changes in price of transactions which are continually taking place.

34. The trading floor of each exchange is divided into a certain number of squares to which are allocated, in alphabetical order, the different stock issues listed. An issue can only be traded in the square to which it is allocated. Opposite each trading square is a board on which are marked the symbols of the stock issues traded in that square; e.g., 'A' - Abitibi, 'ALM' - Aluminum. During each market session, a board-marker chalks in the column headed by the symbol that particular stock's bid and asked prices, last sale price, together with other relevant information. The pamphlet entitled "The Tale the Big Board Tells", which has bee included in supplementary documentation forwarded to the Commission, illustrates and comments on a hypothetical section of the Montreal Stock Exchange board.

35. On each side of the trading floor, underneath the boards, are the telephone booths. Each stock brokerage firm represented on the Exchange has a booth and a telephone clerk. Buy and sell orders from the firm's office are transmitted by telephone to this clerk, who then transmits the orders to his firm's trader on the floor. When the buy or sell order has been executed, the telephone clerk transmits confirmation of same to his firm's office. He is also constantly relating such other information as quotations, price

trends, etc. to his office. Runners in the employ of the Exchange carry messages to and from the telephone clerks to the traders on the floor. Only traders and Exchange personnel are allowed on the floor during market hours.

36. Daily trading sessions begin at 10:00 a.m. and end at 3:30 p.m. At the sound of the bell, announcing the opening of the market, auctions begin, prices being determined by the play of supply and demand. The different issues are traded simultaneously, and not in any particular order. Books in hand, the traders run from one square to the other, executing orders to buy or sell the various stocks listed on the board.

37. Each transaction is recorded in a matter of seconds, the selling trader filling out a sales slip in triplicate showing the buyer's number, the number of shares sold, the stock symbol and the price per share. The slip is then initialed by the buyer, who retains a copy, while the third copy is sent by runner to the teletype operator. The operator transmits the details of the transaction over the ticker, and the receipt is then sent to the statistical department and clearing house for recording purposes. The buying and selling traders turn over their copies of the receipt to their respective telephone clerks, who transmit confirmation to their offices.

38. There are two types of orders which may be transmitted to the floor for execution:

a) Market order - this represents instructions to buy or sell a security at the best price available and should be acted upon

as soon as possible.

b) Limit or Open Order - this represents instructions to buy or sell a security at a stipulated price. This type of order will only be executed when the security either trades at the designated price or at a more advantageous price. This type of order may be valid for a day only, some other specific period of time, or until revoked, depending on instructions given.

39. The minimum fractions recognized when bidding, offering, buying or selling listed securities are set forth in the by-laws and rulings of our two Exchanges. For convenience, the Exchanges have also adopted units of trading which are generally referred to as board lots. The sizes of these board lots are stipulated in the Exchanges' by-laws and rulings. Orders for less than the number of shares specified as board lots are known as off lot or broken lot units. Thus an investor may buy or sell any quantity of listed securities whether it be one or more shares.

40. A factor peculiar to the Montreal Exchanges is the number of issues which are interlisted in other major markets, principally those of Toronto, New York and London. There exists, therefore, a substantial volume of arbitrage business between the four centers, although most of it is conducted with Toronto and New York. The presence in New York of so many lists of Canadian corporations makes it essential that this

arbitrage continue, both in the interests of assuring equitable prices for clients, and of maintaining some control in the trading of domestic securities. A substantial proportion of daily business is accounted for by arbitrage.

41. Coupled with this, and closely related to it, there has also developed a certain amount of professional or position-taking trading, particularly by members who are also members of the Toronto Stock Exchange. These may be positions taken in anticipation of an arbitrage transaction in another market, or merely in anticipation of a price change in the Montreal or any market, on that day or several days thence.

42. Exhibit "A" of Appendix IX shows that 29.8 per cent of the transactions made during three days in June 1962 were executed by members either for their own account or an arbitrage account.

43. We have always been careful to assure that there should be no confusion as to the application of the rules governing agency transactions, which is that a broker must not act as both agent and principal at the same time, nor should there be the slightest abuse. On the one hand, therefore, we view the development of the professional trading account as a factor which contributes in great measure to marketability and in this sense it is to be encouraged. On the other hand, it is a practice which may be susceptible of variations detrimental to the interests of individual clients, and it has therefore been circumscribed to some extent by recent rulings which grant priority to the orders of

individual clients over those of professional accounts.

44. The development of this type of trading appears to be a Canadian variation of a principle applicable to all stock exchange trading; in some form or another, the presence of professional traders, with very short term gains as incentive, is required to assure continuous and constant marketability. In London, the jobber performs the function; in New York, it is the specialist. Both cases are testimony to the fact that ordinary shareholders of any given company who normally hold stock for long periods would not, by themselves, provide the closeness in price and the assurance of size in any given stock that is furnished by the professional trading element.

45. It is conceivable that other refinements will be added to this particular technique so that a more formal practice may emerge -- perhaps a specialist function --, although this is complicated by the inter-listings of many securities on the exchanges.

46. The prevalence of institutional-type clients and the growth of mutual funds in recent years have provided a greater amount of buying and selling in size than hitherto existed. Some attempt had been made in earlier years to accommodate this type of transaction by permitting trades "off-the-board" under special conditions of size and commission and, in some instances, price. The underlying notion was that the ordinary board-lot processes of the market were not adequate to effect these "wholesale" trades expeditiously. The continual growth of trading in size, however, saw a demand

for more and more off-the-board transactions with some elements of competition as to price amongst brokers being introduced. The Montreal Exchanges executed revised rulings which had the effect of returning special-size transactions to the floor, and under well-defined conditions of size, price and commission. We believe that further studies and changes will be necessary to accommodate trading in size through the normal processes of floor-trading, perhaps introducing a larger trading unit of a "block lot" to complement the "board-lot".

47. In addition, we are reviewing techniques now in use by other exchanges, notably those of the New York Stock Exchange, for both the acquisition and distribution of blocks of stock in size through the floor facilities of the Exchanges.

48. From these aspects, we are constantly attempting to safeguard the preservation of the stock exchange as an effective and efficient instrument in the functioning of our capital markets, in the belief that an unlisted market can never be, in the whole, a complete market guaranteeing investors objective service. Because of this, we are committed to a policy of listing the greatest possible number of issues on both the Montreal and Canadian Stock Exchanges, with the latter providing more flexibility as to the size and quality of applicant companies.

49. Members of the Montreal Stock Exchange have an arrangement with the Boston and Philadelphia-Baltimore Stock Exchanges whereby members of each exchange have

direct access to trading activities on the other exchanges. There are thirty-seven Montreal Stock Exchange members who have taken advantage of the association with Boston and thirty-three who have associated with Philadelphia-Baltimore. In turn, there are forty-eight members of Boston and forty-nine members of Philadelphia-Baltimore who have associate membership with the Montreal Stock Exchange.

50. We are attempting to keep abreast of the latest developments in the field of communications and data processing with the view to reinforcing and improving the Exchanges' facilities. Included in the supplementary documentation which has been forwarded to the Commission, is a report entitled "Survey of Trading, Statistical and Clerical Routines" which was compiled by a firm of Management Consultants. Preliminary work has been carried out with a view to implementing various suggestions and recommendations of the report.

Clearing House

51. Members who have executed transactions on the floors of the Montreal and Canadian Stock Exchanges complete settlement through the facilities of the Exchange Clearing House.

52. At periodic intervals throughout the day, the sales or floor tickets are delivered to the Clearing House from the trading floors. The transactions are recorded on separate punched cards, one for the buying member and one for the selling member. After the close of the market, the punched cards are sorted and the transactions are reproduced in alphabetical order by

security on Clearing House sheets for each member. With certain exceptions, the third day after a transaction takes place is "Settlement Day". On the "Settlement Day", each member delivers to the Clearing House the securities he owes other members and in turn he receives the securities due to him by other members. He also either delivers or receives a cheque representing the net cash value of the transactions that he is clearing.

53. Through the operation of this central Clearing House, the number of certificates and the amount of cash handled in the settlement of transactions is greatly reduced.

54. The Exchanges have investigated the possibility of further reducing the handling of cash and securities through the establishment of a central depositary. Some studies have been completed in this regard and a committee has been appointed to further consider the feasibility and problems of introducing such a depositary. Indications are that it would be very desirable to have the chartered banks, trust companies and other stock exchanges in Canada supporting such a depositary.

Publishing Information

55. Assuring a continuous flow of information from a stock exchange is a very vital role and operation of the Montreal and Canadian Stock Exchanges. The knowledge of transactions and of the affairs of listed companies is an essential feature of exchange trading. It is of paramount importance to continue and maintain this dissemination of facts which will have much to do

with the investment decision of brokers' clients.

56. We speak of two kinds of information:

(1) that information concerning the transactions of the day on the floor of the Exchange which is publicized simultaneously and continuously throughout the day. This information is summarized and expressed in terms of index movements, volumes, and price changes, and is disseminated by ticker, radio and television broadcasts, daily newspapers, and official Exchange "Daily Sheets";

(2) that information concerning the affairs of listed companies which may affect in any way the value and price of a stock. This information includes notices of dividends payable or omitted, stock subdivisions, offers to purchase, notices of consolidation or merger, and offerings of right to purchase additional shares, all of which must be immediately disclosed by companies with listed securities.

57. As might be expected, the Montreal Exchanges are continually looking at ways and means of improving this service of continuous and accurate information. A fast and reliable quotation service, and a wider and more efficient circulation of current daily information will be achieved purely by the use of more advanced mechanical and electronic equipment and, as mentioned earlier,

detailed studies have been made from which it appears likely that improvement in these areas is limited only by capital cost. But recognition of this need, however, is not new -- for years the Printing Company owned by the Montreal Stock Exchange has been issuing, within one hour of the market's close, Daily Sheets containing an official record of transactions, closing quotations, and notices.

58. Obtaining additional information other than that already supplied from companies with listed securities is a more complex problem. The most basic items of disclosure have for some time been covered by our listing agreements, but it is widely known that the issuance of financial reports more than once annually is a needed improvement. Other areas also require attention; many Canadian companies do not disclose the dollar value of their sales nor, as a further example, are there any rules for the protection of minority shareholders in take-over bids.

59. Possibly the stock exchanges of the country could, in concert, introduce additional requirements for listed companies in the field of disclosure. But we have serious misgivings that such amendments would prove acceptable to Canadian corporations without some legal suasion.

60. Much has been accomplished by the Toronto Stock Exchange in requiring greater disclosure by mining companies, through the instrument of the filing statement, and these requirements have been adopted in large measure by the Canadian Stock Exchange, even though in Quebec

there is no automatic exemption from registration under the Securities Act for listed companies as there is in Ontario.

61. We believe that the most critical examination is required of the various federal and provincial companies statutes with the view to developing greater disclosure. Although our securities acts covering public issues are not perfect, yet, on the whole, they do provide for adequate disclosure to accompany the initial or primary issue of a security but, thereafter, in requiring disclosre of public companies on a continuing basis, the requirements of our companies' statutes are entirely inadequate.

62. So far, the Montreal Exchanges left to their own resources, have developed standards and requirements for lising that are more stringent in most cases than those required by law. The over-riding consideration is to continue to preserve in the fullest sense possible the principle of public knowledge or disclosure, realizing that without it proper investment decisions cannot be made and, without enlightened buying and selling, the element of marketability must be jeopardized.

Summary of Listing Requirements and Obligations of Listed Companies

63. The Commission has been provided with several copies of listing application forms and completed applications for listing on both the Montreal and Canadian Stock Exchanges, together with some completed copies of filing statements which have been submitted to the Canadian Stock Exchange by mining, oil and natural

gas prospect companies. Copies of the by-laws of the Montreal Stock Exchange and Rules and Regulations of the Canadian Stock Exchange in this regard have also been provided.

64. The decision to accept a stock issue of an industrial company for listing on the Montreal Stock Exchange or Canadian Stock Exchange; i.e., not a mining, oil or natural gas prospect, rests respectively with the Governing Committee of the Montreal Stock Exchange or the Board of Management of the Canadian Stock Exchange. The Committee or Board acts on the recommendation of a sub-committee in charge of listings, which has previously enquired into the financial and corporate status of the company and its management.

65. Regarding applications to list on the Montreal Stock Exchange, the sub-committee ascertains that at least an adequate percentage of the issued capital is in the hands of the public. This figure, which is not immutable, is set at 25 per cent. A minimum of approximately 300 shareholders is also required, holding a minimum of one board lot or more. In the case of small preferred share issues a minimum of approximately 100 shareholders may be accepted. The Montreal Stock Exchange constitutes a purely secondary market for industrial securities, that is, that its facilities may not be used for primary distribution.

66. The company applying for listing must supply inter alia full details as to its charter, capital structure, board of directors, management, nature of activities, the shareholders, and an earnings record for

the five preceding years together with an up-to-date audited balance sheet and a profit and loss statement. The company must also agree to publish a balance sheet and a profit and loss statement for each fiscal year and file same with stockholders and with the Exchange at least 10 days before its annual meeting, to advise its shareholders and the Stock Exchange of any declared dividends or capital changes, and to supply all information of a reasonable nature materially affecting its position as required by the Exchange. The Exchange reserves the right to suspend or delist any stock at any time and without prior notice.

67. Preferred and common stocks traded on the Montreal Stock Exchange are issued in registered form and current policy dictates that only registered share certificates constitute good delivery. To prevent imitation and forgery, the Exchange insists that the certificates be steel engraved. A company listing on the Montreal Stock Exchange will, in normal circumstances, be required to appoint a transfer agent and register in Montreal whose choice is subject to approval by the Exchange. Normally, trust companies fulfill the role of transfer agent but occasionally the company itself acts in this capacity. The company must, however, have an independent registrar. The registrar executes an agreement undertaking to see that the number of shares in circulation is not more than the number of shares authorized for issuance and listed on the Exchange and that no errors, omissions, or other irregularities occur with respect to the transfer or registration of shares.

Except for the provincial transfer tax paid by the seller of stock, the transfer of shares is done free of charge. The company assumes the obligation to pay the fees of transfer agents and registrars.

68. While roughly the same as those of the Montreal Stock Exchange, the conditions for listing on the Canadian Stock Exchange are less onerous. For example, share certificates may be either fully engraved, lithographed or printed on an engraved or lithographed bordered form acceptable to the Exchange. The applicant company need not maintain transfer and registry facilities in Montreal; hoever, this is recommended to expedite transfers. The appointment of such agencies must be acceptable to the Exchange.

69. With respect to listing requirements for industrial applications, approximately 20 per cent-25 per cent of the issued share capital must be in the hands of the public, with a minimum of 100 shareholders holding one board lot or more. Cognizance is also taken of the age of the company, the management, type of business conducted, and the past and projected rate of expansion. Such considerations obviously determine the character of the company's earnings record, however, generally a satisfactory record for approximately three years indicating a stable or expanding operation is looked for. Certain minimum net working capital limits are enforced. These vary with the type of business and the stage of development attained.

70. Mining, oil and natural gas companies must furnish evidence of public distribution of a minimum of

25 per cent exclusive of officers, directors, or promoters, and not less than approximately 150 shareholders holding one board lot or more. These distribution requirements are designed to ensure that the stock once listed will have an adequate public market and that the maximum degree of stability in the market will be achieved.

71. The speculative nature of these companies obliges the Exchange to insist on the quality of the company's management. Generally speaking, to qualify for listing the company must be adequately financed to satisfy, at a minimum, all its current liabilities and have available sufficient funds to meet projected development costs as certified by the report of an independent mining engineer or petroleum geologist on its properties or leases.

72. In application to list on the Canadian Stock Exchange the company must also supply inter alia copies of the charter, or letters patent, supplementary letters patent, the most recent prospectus and annual report up-to-date audited financial statements, underwriting or option agreements, shareholders list and, where applicable, full details of properties or leases. Following initial listing, additional shares may be added to the lists of the Exchanges on filing of the necessary opinion of counsel in this connection, letter of application, together with completion of Form No. 8 in the case of Montreal Stock Exchange listings, and payment of the necessary fee.

73. Under certain stringent conditions, the

Canadian Stock Exchange may permit primary distribution of the stocks of listed companies. Underwriting and option agreements to effect primary distribution by mining, oil and natural gas companies on the Canadian Stock Exchange are subject to certain conditions which are detailed in the accompanying pamphlet. As stated therein, no option may be granted without an underwriting. The one exception permitted is the category of employee options. In this case, such options will be accepted if (a) the employee is full-time and remunerated as such, (b) the option is exercisable only during terms of employment or on death by his executors over a limited period, (c) the option is of 10 years maximum duration, (d) non-assignable, (e) the price at the granting of the option must be within the same discounts from the market as are detailed in Item 6 of the accompanying pamphlet on Underwriting and Option Agreements, (f) the shares reserved for such option shall not exceed 5 per cent of the outstanding capital. Shareholders approval may be requested if one or more of these conditions are not complied with.

74. All material changes in a listed company's affairs must be reported to the Exchanges under the terms of the accompanying Listing Agreement forms. Material changes in the affairs of mining, oil and natural gas companies are reported by way of the attached Filing Statement and Amending Filing Statement forms, together with supporting documentation.

75. As at June 30, 1962 there were 760 issues listed on the Montreal and Canadian Stock Exchanges.

PART II

MEMBERS' OPERATIONS

76. All brokerage houses which hold membership in the Montreal or Canadian Stock Exchanges have the following basic organization:

MANAGEMENT

AUTHORIZED REPRESENTATIVES	FLOOR TRADER	ORDER DESK	BOOKKEEPING & ADMINISTRATION

77. Some houses also have one or more of the following departments:

Research
Underwriting
Investment planning or Porfolio Management
Mutual Funds

78. Appendix I serves to illustrate to some degree the size and extent of operations of member firms which come under the direct supervision and audit control of the Montreal and Canadian Stock Exchanges.

Management

79. Shareholders or partners in a member firm with a few special exceptions are required to be actively engaged in the brokerage business and spend the greater part of their working time at this occupation. Therefore, management is usually comprised of shareholders or directors. This, together with stringent capital requirements, tends to limit the vocation to those who have private means and are prepared to make the brokerage business their careers. There are cases where a shareholder has financed the purchase of shares in a member corporation by bank borrowing but the pledged shares in

the member corporation cannot be disposed of by the bank involved without the prior approval of the Montreal or Canadian Stock Exchanges. The approval would only be given if the person to whom the shares were to be transferred was acceptable not only to the shareholders of the member corporation but to the Exchanges. Such a person must also become a full-time officer or employee of the member corporation.

80. The capital required by a member firm is dictated by the following factors?

(1) The cost of stock exchange seats, furniture and equipment, etc. necessary for the operation of the business, plus a minimum working capital of $25,000 in the case of a member firm and $50,000 for a member corporation;

(2) the size of the firm's investment inventory;

(3) the volume of business.

81. The exchanges have formal regulations concerning capital requirements which are designed to ensure that the member firms maintain a sufficient degree of liquidity in their operations for the protection of the public having regard to the risks inherent in the brokerage business. These regulations, among other things, require that the capital provided by the shareholders and partners should be at least sufficient to cover the full cost of the seats, equipment, etc., the amount necessary to provide the usual "margin" on the investment inventory and, in addition, an arbitrary amount based generally on the volume of business being done as additional assurance of

liquidity for the protection of the public. The exchanges' financial questionnaire which has been forwarded to the Commission, shows complete details of the method used to determine a member's capital position and the amount of capital required.

82. The balance of the funds required to finance business operations is usually obtained through bank borrowings secured by the loan value of clients' and firms' securities. In addition to banking institutions, a source of funds available to many brokers is customers' free credit balances. These are balances left with the brokers by the public in anticipation of the execution of open buying orders or pending what the customers consider to be the appropriate time to enter the market. Customers are usually paid interest for the use of these funds. Individually these balances change from day-to-day but in bulk can be a substantial amount at any time. Brokers may also obtain funds from commercial firms having an excess of cash. This is sometimes referred to as "country banking".

Authorized Representatives

83. The salesmen of a member broker are normally referred to as "authorized representatives". The by-laws and rulings of the Exchanges prescribe certain minimum standards which apply to all authorized representatives.

84. The standards for approving the soliciting representatives of members have always been the subject of some concern. Only in recent years have serious attempts been made to up-grade the quality of a representative. Again, in the context of trust and

individual responsibility, large discretion was permitted the member in assessing the abilities and integrity of an authorized representative. His recommendation was usually sufficient for approval.

85. It became obvious, however, that more uniform norms of approval and higher entrance qualifications were needed, stimulated by the occasional discovery of the complete lack, in some cases, of investment knowledge, in others of questionable practices. Written and oral examinations were implemented, and more detailed and comprehensive application procedures devised. Copies of application forms together with samples of written examination questions have been sent to the Commission. To-day, the Exchanges are in the process of forming a training and educational course for potential representatives and other members' personnel; a course which will be designed to acquaint them with matters of investment and finance, and a detailed knowledge of stock exchange procedures and operations, and of the ethics of the profession.

86. It has been the general experience of the Exchanges that their members have not been able to attract a large number of college graduates into the industry, particularly into the area of selling. We think that this may have something to do with the usual basis of remuneration, earnings in direct proportion to production, which will invariably mean lean first years for the beginner. Positions in other industries with higher rates of starting salary prove more attractive. There is evidence, however, of a larger proportion of newcomers

to the field with better educational qualifications than heretofore, although this may be in direct proportion to the greater incidents of college graduates today.

Other Employees

87. The control of the "back office" expenses is a continuous battle in the brokerage offices as the business is subject to such pronounced fluctuations. When there is low activity in the exchanges it is necessary to cut staffs to a minimum and only retain persons who are key employees and around whom a new staff may be built up when trading activity increases. This does not make for the best type of organization since an increase in activity creates a demand for employees who are familiar with the brokerage business at a time when they are in short supply. The strictly mechanical and clerical nature of the bookkeeping and day-to-day administrative activities is not attractive to prospective employees. However, the increased use of punched card and data processing equipment will definitely stabilize this area of concern.

Commissions

88. As remuneration for his services, a member broker receives an agent's commission. Our present scale is the result of many years of experience, but the reason for its present structure is not clear, other than that it has been considered to include rates which are equitable for clients and adequate to compensate members for their services. There has been one major change in rates of commission in the last twenty years. This was in 1950 when the rates were increased approximately twenty per cent. There have been a few other minor

revisions to provide the same schedule of rates for both industrial and mining categories and to improve the gradation in the commission prices per share.

89. Some members are of the opinion that the commission schedule as presently constituted is insufficient to offset adequately the charges stemming from services which members must provide, for example, dividend collections and safe-keeping. Others are flatly opposed to extra charges and, while extensive study has been made, there has been no move to implement service charges. Recently, it was agreed that studies be continued with a view to adopting a percentage basis for Commissions along the lines employed by the New York Stock Exchange.

90. Appendix II shows a comparison of the Montreal and New York commission rates on a per share basis. It is to be noted that New York has a sliding scale for transactions involving less than 100 shares and that the percentage basis has been converted to a per share basis for comparison purposes.

91. Commissions constitute the revenues of the brokerage community and we believe that the minimum must be strictly observed in dealings with clients. There is no evidence that today's commissions are inadequate. Costs have increased but so has volume of business. From another point of view there is no evidence that clients find commissions excessive, nor that the present scale in any way inhibits the purchase of common stock.

Cash Versus Margin Accounts

92. The investor purchasing securities through a member firm may pay for them in full. This type of an

account is generally referred to as a cash account. On the other hand, an investor may buy securities and pay only part of the purchase consideration to the member. This is generally referred to as a margin account. In the latter case the member firm advances the remainder of the cost to the investor; in other words the client is granted credit for part of the purchase value. The rate of interest charged by members on the unpaid balance is fixed by the Exchanges, usually one per cent higher than the prime commercial rate charged by the Chartered Banks.

93. The Montreal and Canadian Stock Exchanges regulate the amount of credit which a member may extend to customers on the purchase of securities, both listed and unlisted. The Toronto Stock Exchange has similar requirements. Appendix III sets forth the margin requirements of the Montreal and Canadian Stock Exchanges.

94. In the United States it is the Board of Governors of the Federal Reserve System which regulates such credit. The main difference between the granting of margin is that the percentage of margin required by our exchanges must be maintained at all times by the customer whereas in the United States once the initial percentage required has been paid by the client, this does not have to be reinforced with further funds should there be a drop in the market value of the securities purchased. The percentage of initial margin required in the United States is presently similar to our requirements (with certain minor exceptions, 50 per cent of market value for listed stocks), however, it has fluctuated in a range from 50 per cent -

90 per cent in recent years. There has been no basic change in our percentage requirements since 1946.

95. Members grant credit to customers in accordance with our margin requirements more for accommodation reasons than with a view to pecuniary gain. The spread of one per cent between the cost of borrowings and that earned from clients hardly suffices to cover the additional overhead expenses created by margin accounts.

96. There are two methods of reducing the amount of credit granted investors on the purchase of securities:

(a) Increase in margin requirements -- this would increase the proportion of the purchase volume of securities to be paid by a customer;

(b) increase the Bank of Canada rediscount rate which in turn would be reflected in the Chartered Banks' prime commercial rate upon which the exchanges base their rate charged customers on unpaid balances.

97. It is the view of our Exchanges that little would be accomplished by allowing the Bank of Canada to regulate this credit granted by members to clients through direct control over margin requirements. Balances in customers' margin accounts carried by our members represent an extremely small figure when related to total consumer credit in Canada.

CONTROL AND SUPERVISION OF MEMBERS

98. There are three mediums employed by the exchanges to ensure that members, member firms and member corporations conform with the many and varied requirements

designed to prevent questionable practices, provide financial responsibility and ensure good conduct in the general handling of day-to-day activities.

The Consulting Auditor

99. The same Consulting Auditor is retained by both Exchanges. His function is to advise the exchanges on matters pertaining to the financial position of all members.

100. Each member firm or corporation must retain the services of a "brokers' auditor" who must be selected from a panel approved by the exchanges. The Quebec Securities Act provides that a "brokers' auditor" must have practiced public accounting in the Province of Quebec for at least five years. The"brokers' auditor" is required to examine the accounts of a member and report in a prescribed manner to the Consulting Auditor.

101. The Commission has been provided with copies of the instructions to brokers' auditors together with copies of printed forms Q1a, Q2, Q3 and Q4. Brokers' auditors complete and forward these forms and supplementary information to the Consulting Auditor who reviews them with particular reference to the members' liquid position and makes recommendations to the Governing Committee or Board of Management for action when necessary.

102. A number of our members are primarily responsible to either the Toronto, New York or American Stock Exchanges for financial reporting purposes. The financial requirements and enforcement activities of these exchanges are recognized and generally accepted by the Montreal and Canadian Stock Exchanges and in order to

avoid duplication of report preparation, the data submitted to the other exchanges is accepted by the Consulting Auditor.

Exchange Examiner

103. The Exchange Examiner is part of the administrative staff of the Montreal and Canadian Stock Exchanges. On a surprise basis, and at least twice a year, the Exchange Examiner requests each member firm or member corporation to complete and submit financial statements. These statements are prepared by the members' staff and a specimen of the general instructions and statements required have been sent to the Commission.

104. The Exchange Examiner and his staff, who are all chartered accountants, make periodic visits to each member's office to ensure the accuracy of the preparation of statements submitted and to satisfy themselves that the by-laws, rulings and regulations are being complied with during day-to-day activities.

Floor Committee

105. Each exchange has a floor committee composed of several of the more experienced floor traders. It is the responsibility of the members of these committees (at least one of whom is always in attendance) to enforce all by-laws, rulings and regulations with respect to executing transactions on their respective floors.

FINANCIAL SUMMARY

106. The financial reports of our members have been analyzed to produce the summaries appearing as Appendix IV. The extent to which these may be relied upon is representative of the aggregate financial position of our

members and is discussed in the Preface to the Appendix.

OUTLOOK

107. The stock exchange, as an institution, and the stock broker, in our opinion, constitute a vital component in the country's capital markets. In reviewing its early beginnings it was noted that its members performed the function of raising funds for early Canadian venture and in providing after-markets for the securities issued.

108. Its subsequent growth has been predicated on a continuance of that function although the role of the member brokers has changed somewhat with the advent of the investment dealer. In a sense the member broker is mostly concerned today with secondary markets rather than primary issues from company treasuries and in this capacity he is most easily recognized. Trading on the Montreal Stock Exchange is always of a secondary nature, that is, from one investor to another, not from underwriter to investor, and a member of the Montreal Stock Exchange serves this role. In so doing, he and the marketplace which he supports and uses are providing liquidity for that portion of the country's capital wealth which exists in the form of common and preferred stock. Together they are performing a valuable service not only for client-investors, but for the country's corporations and their shareholders, and in turn, for the economy as a whole. The whole pattern and structure of prices and yields for non-debt securities is based on the orderly conduct of stock exchange transactions, thus being related intrinsically to the investment policies and decisions of individual Canadians and of fiduciary

managers of funds.

109. We foresee an expanded role for the stock exchanges as an institution. Now public in nature, it has the responsibility not only of providing these essential market facilities, but of maintaining and preserving them. This calls for expanded participation by Canadians in the ownership of the nation's wealth through common stock -- this very philosophy accounts for the relatively new and intensive measures adopted by the Montreal Stock Exchange to encourage such a movement. To this end, Exchange spokesmen, particularly its president, have talked to many groups throughout the country, and particularly in the Province of Quebec, attempting to contribute towards a better understanding of the economic and investment problems which we face. All Exchange publications have been tuned to this policy, and we have assumed the expenses of administering the Canadian Association of Investment Clubs. We have also introduced a Monthly Payment Plan formulated to provide the small and novice investor with an easy introduction to the purchase of common stock.

110. Since our members have traditionally served the capital needs of the Province of Quebec, the Montreal Exchanges have maintained a particular interest in the latterly-renewed promise of industrial and economic development in the Province. We have publicly declared our intention to support fully the Province's economic aims; our members have no difficulty in identifying their welfare and that of the Exchanges' with that of the Province. More particularly, the listing facilities of the Canadian Stock Exchange have been, and will continue to be,

available for new growth companies; particularly "junior industrials", an increasing number of which have been added in the last two years.

111. In some respects, the Canadian Stock Exchange represents greater potential growth. In recent years, its list of mining companies has expanded considerably, many of which represent exploration and development in Quebec itself. Without doubt, mining activity will continue and we fully expect an increasing share of listings, although sponsorship may not always be within the Province. The issue of natural resources companies are, by their very nature, highly speculative. Nevertheless, it is the conviction of the Canadian Stock Exchange that, if public ownership is involved, then an application for listing should be seriously considered, provided that the company can meet well-defined standards of working capital, geological and development work, and public share distribution.

112. With such issues, primary distribution does take place through the facilities of the Canadian Stock Exchange. However, we do not view this practice as basically unsound, provided that underwritings and other treasury issues are accompanied by sufficient disclosure, the techniques of which are continually being revised and refined particularly through the filing statement, which is first submitted and reviewed, and if accepted, printed and distributed. In most cases mining exploration companies are unable to afford the more expensive methods of widespread public sale, and distribution through the Exchange is less costly.

113. There has been and will be abuse in this field, but the major problems will be obviated by a rigid adherence to the principle of full disclosure. In Quebec, there is the additional safeguard of registration with the Quebec Securities Commission for all new treasury issues, without exemption for listed companies.

114. One may distinguish the stock exchange performing the functions already described in three different capacities:

(1) as a self-sustaining business endeavor, whose primary end is to provide the physical marketplace and its effective management;

(2) as an association of member-brokers, with ends of mutual assistance and co-operation, but with duties and responsibilities for disciplining and self-regulation;

(3) as a public institution of finance and an auxiliary to the capital market with public obligations, responsibilities and trust, and regulated as well as regulating, providing a service both to corporations and to investors.

115. In the first capacity, the Exchanges must be self-sustaining, deriving the larger portion of their revenues from assessments payable by the members, and to a lesser extent, from fees payable by the listed companies. The Montreal and Canadian Exchanges have for some years reserved amounts of capital to provide for

expansion, with the result that funds available to proceed with the new program of relocation and modernization. In this respect, the Exchanges differ little basically from any commercial or industrial enterprise in making certain that the market functions properly, that a trained staff is available, and that physical equipment is in good order.

116. In its capacity as an effective association of members, the Exchanges provide ancillary facilities for their members, which are intended to assist brokers in providing better service for their clients. These services are particularly in the area of statistical data and records, involving regular daily, weekly, monthly and annual compilations and computations which are distributed through official Exchange publications.

117. Cost consciousness on the part of members, combined with a new appreciation for proven electronics advances have resulted in additional aids in the clearing and delivery of securities. The Exchanges have done extensive research in this section, particularly on facilities of "central deposit", a complex and difficult development, but one which implies outstanding improvement in the handling and delivery of securities.

118. The Montreal Exchange, has, in recent years, effected a direct communications link with the Boston Stock Exchange and the Philadelphia-Baltimore Exchange. This was a direct result of an effort towards enabling members to trade in securities of United States corporations on more favourable commission terms, since it recognized a growing interest by the Canadian investing public in these securities.

119. In the final capacity, a steady awareness of and regard for the investing public is essential and in this connotation, the Exchanges are both regulated and regulating. As an institution, the Exchanges have decided legal responsibilities under the Quebec Securities Act, and their members, of course, are subject to general and particular regulation governing their conduct and department in dealings. The Exchange is also a regulatory body for its members, enforcing effectively its rules in the interests of fast and equitable treatment for the investor.

120. The Exchanges maintain a strong measure of cooperation with the provincial securities agencies, particularly the Quebec Securities Commission where liaison is close and constructive, especially in matters pertaining to listed companies. Good relations are also maintained with the Ontario Securities Commission, particularly in the field of mining issues, and while they are unofficial, these relations are nonetheless effective. The Canadian Stock Exchange from time to time has occasion to confer informally with the Ontario Broker-Dealers Association and the Securities Commissions of all the Provinces.

121. There is cooperation with the Investment Dealers' Association in some ways, although it is not extensive since the aims and ends of that Association are concerned primarily with financing loans and acting in the capacity of an underwriting and distributing organization. On occasion, matters of mutual concern have been jointly discussed, but there is no regular communication.

122. In other areas, relations as an institution with other bodies are limited although the Exchanges maintain unofficial and friendly contacts with many civic, trade, and professional bodies in the common cause of improving the investment atmosphere in the country.

123. In summary we seek, in delicate balance, to assure investor safety and confidence while at the same time we attempt to promote mass investment by Canadians, with the conviction that in a larger context there is greater need at the present time for positive inducement and incentive to invest than there is for restrictive and prohibitory regulation.

PART III

THE DEMAND FOR EQUITIES

A. The Market

A-1 General

124. It is of paramount importance to determine the identity of the sector of the Canadian public that either owns or has the propensity to acquire securities issued by Canadian corporations. Knowledge of the relative importance of each investing segment is prerequisite to the formulation of policies to encourage greater Canadian participation in this country's economy. It is equally desirable to establish a basis of comparison with the United States market so that the validity of utilizing the results of various extensive surveys conducted in that country might be determined in the Canadian context. With these objectives in mind, and for the purposes of this submission, the Montreal Stock Exchange has conducted three surveys.

125. The first study recorded the use of the Exchange's facilities by its members during selected trading days in the month of June 1962. The resultant statistics embodied in Appendix IX were specifically derived in a form convenient for comparison with the results of a similar study conducted by the Department of Research and Statistics of the New York Stock Exchange on the 13th of September 1961. A summary of the results of the latter study forms Appendix X to this submission.

126. The statistics appearing in the geographic analysis of our market result from a survey of selected companies listed on the Montreal and Canadian Stock

Exchanges. The basic objective motivating this survey was that of developing an index to be used as a geographic analysis of shareholdings in order to study trends after a series of surveys have been completed. In addition, comparison with the national figures produced for various industries by the Dominion Bureau of Statistics will underscore regional variations in shareownership. The representative sample replying were requested to advise as to their shareholder composition on the 31st day of December 1961, or the most recent closing of their respective stock registers. The results of this survey are consolidated in Appendix V.

127. Finally all subsidiaries of foreign corporations, and all companies believed to be controlled by non-residents, listed on our Exchanges were asked to provide information with respect to the ownership transition through which shares offered to the Canadian public have passed since the date of the initial distribution thereof. There is a paucity of information concerning the re-sale tendancy of Canadians under these circumstances, and the results of our survey are discussed in the sections of this submission relating to the supply of equities.

128. Regrettably, the three aforesaid surveys undertaken by our Exchange are pioneer studies and, as a consequence, an historical comparison is not possible on a consistent statistical basis. The trend analyses undertaken in this submission, of necessity, were developed through analogy with detailed and extensive studies prepared by private United States organizations and the more general published reports of the Dominion

Bureau of Statistics. Statistical error of indeterminate size will therefore result. In spite of growing concern over the substantial foreign investment in Canada's basic industries, there has been remarkably little done in the area of empirical study to ascertain the ability or capacity of Canadians to invest in equities or to provide development debt financing. The deficiency of statistics impeding researchers who seek to resolve these problems leads to the conclusion that prevailing "expert" opinions are the product of intuition rather than the results of reasoned analysis.

129. Finally, the restricted scope of our examination of these subjects should be emphasized. The surveys which we have conducted were confined to the shareownership of companies listed on our Exchanges and the security transactions routed through our facilities by our member firms. To this extent our submission is of regional significance only. Nevertheless, the resultant statistics are based upon a representative sample which produces a valid portrayal of our trading area. Where possible we have endeavoured to submit for consideration data not available elsewhere, and to relate these to such national and United States statistics as may be pertinent. However, a number of plausible conclusions readily apparent from the data may be misleading or spurious because of the interaction of two or more factors. These may also be the consequence of confusion as to cause and effect in assessing influence of dependent and independent variables. Such uncertainties will underscore the need for more comprehensive statistical research into these complex

subjects.

A-2 Geographic Divisions

130. Our survey of listed companies was designed to indicate the regional categories of shareownership as of December 31st, or the nearest date thereto for which corporate records were available. This is a complementary study to that made in Section A-3 of this submission wherein the 1961 Taxation Statistics are utilized in an effort to obtain a national analysis of the public individual shareholder group by location on the basis of portfolio content. Our own geographic comparison relates to percentages of outstanding shares held by all shareholders, corporate and individual. Percentage comparisons are developed as to the dollar value thereof, and the concentration of individual ownership. These are derived from a representative sample of leading dividend paying corporations listed on our Exchanges. Deviations in ownership patterns within our trading area as contrasted with the national statistics will appear within each industrial sector surveyed.

131. It is also our intention to compare herein the results of our survey with the latest Dominion Bureau of Statistics analysis of foreign ownership and control of Canadian industry appearing in the 1960 report of The Canadian Balance of International Payments and International Investment Position. Obviously only tentative and very general conclusions may be drawn because of the different samples involved.

132. Our survey was beset with certain difficulties and some of these proved, to a degree, insurmountable.

Many foreign shareholders, for purposes of anonymity, own securities in the name of nominees resident in Canada. In some cases it is believed that the percentage holdings represented by these persons is very large. To this extent our statistics respecting foreign ownership will be understated. In addition, many corporations are controlled by holding companies, the domicles of which are different from those of the individuals who control the holding companies. These relationships will cause statistical distortions, as will the participation of mutual funds, personal corporations and other special entities as shareholders of corporations. Finally, the differences in fiscal years of many corporations prevented us from always obtaining records as of December 31, 1961.

133. The greatest value will be derived from this survey in succeeding years when a trend analysis will be possible and shifts within each industrial division will be readily apparent. We have not intended that this survey would, under any circumstances, aspire to developing statistics of shareownership on a national basis. Indeed, many corporations which formed in themselves a substantial part of a given industry were eliminated from our study because of their failure to conform with one or more of the following criteria:

a) The Corporation must be a Canadian Corporation,

b) The payment of at least annual dividends must have been made during the past five years,

c) Shares must be actively traded on either Exchange,

d) Common shares must be listed. (Only common shareholdings were studied).

As a result of the foregoing and the failure of some companies to reply to our survey, the results cannot be regarded as all inclusive by any means. Instead, what we have is a permanent index of comparison which will be surveyed annually as a special grouping of corporations for the common shares of which our Exchanges constitute an important market place. In this way valuable statistics not available from the Dominion Bureau of Statistics will be provided to our own research department as well as to the analysts and statisticians employed by our members. Appendix V contains the summary of results produced by our survey.

Summary of Results by Industrial Classification

i. Manufacturing

134. Statistics supplied by forty-five companies were analyzed under this general classification. Of this group, legal control (i.e., over 50 per cent of the common shares) of only two companies were found to be in foreign hands. No doubt de facto control has been achieved in certain companies through ownership of a smaller percentage of the issued voting shares, however, these situations were not considered in our survey.

135. The comparative analysis set forth as Exhibit "A" of Appendix V reveals that for the companies surveyed a substantial number (23.46 per cent) of shareholders owning 30.46 per cent of the shares were residents of Quebec. The average price of shares owned by Quebec residents was slightly lower than those held by other Canadians.

136. This group of companies showed results which

contrast sharply with the national estimates produced by the Dominion Bureau of Statistics as summarized in Table 1 hereof. The high incidence of control by non-residents through wholly-owned subsidiaries or through subsidiaries with only preferred shares or limited amounts of common shares in Canadian hands accounts, in the main, for the deviation from the national figures. This contrast was evident in varying degree in every industrial group surveyed except Petroleum and Natural Gas. It is regretted that the most recent period for which national statistics are available pre-dates our survey by two years.

Table 1

Ownership and Control of Selected Canadian Industries
End of 1954, 1957 and 1959

Company Classification	Foreign Ownership			Foreign Control		
	1954	1957	1959	1954	1957	1959
Manufacturing	47	50	51	51	56	57
Petroleum and Natural Gas	60	63	63	69	76	75
Mining	56	56	59	51	61	61
Totals of Above Industries	51	54	56	55	61	63

ii. Mining

137. Exhibit "C" of Appendix V indicates our survey results for this industry with 11 companies reporting. This group included only two companies, the apparent control of which was vested in non-residents. Quebec shareholders constituted 13.44 per cent of the total shareholding group and owned 14.85 per cent of the issued shares. Quebec shareholders held mining shares of slightly higher average value than did other Canadians.

However, as a unit, Canadians held shares of higher average value than did Americans. Total ownership by non-residents of 37.71 per cent contrasts with the national figure of 59 per cent appearing in Table 1.

iii. Petroleum and Natural Gas

138. In this industry our survey covered 8 companies of which 5 appeared to be controlled by non-residents. Exhibit "B" of Appendix V analyzes the results. The average value of shares owned by Americans was higher than those owned by Canadians. The preponderance of foreign ownership throughout this industry is underscored by comparing our figure of 65.14 per cent with the 1959 national figure appearing in Table 1 of 63 per cent.

iv. Trust and Financial Companies

139. There are no federal statistics to compare with the data provided in Exhibit "D" of Appendix V which results from our survey of five companies, none of which was controlled abroad. The substantial Quebec participation of 36.70 per cent in ownership through a smaller percentage (29.64 per cent) of shareholders is noteworthy.

v. Utility Companies

140. Once again there are no official data with which to contrast our survey results which are recorded as Exhibit "E" of Appendix V. Total Canadian ownership of 64.86 per cent was not of unexpected magnitude in our sample of eight companies.

vi. Chartered Banks

141. Quebec ownership data were not available to us and the substantial Canadian ownership percentages cannot

be subdivided. This was the only group surveyed where United Kingdom ownership (18.43 per cent) was in excess of United States ownership (3.71 per cent). The issued capital of eight banks was studied to produce Exhibit "F" of Appendix V.

Conclusions

142. We have previously referred to the necessity for an accumulation of statistics, acquired annually, before any significant inferences may be drawn from the industrial sample which we have selected for study. With the exception of the Petroleum and Natural Gas Industrial group, the controlling ownership of the vast majority of the companies surveyed is currently in Canadian hands. One would expect very slight changes in the control factor over the years, and thus foreign participation may be viewed largely from an investment point of view. The trend to increased foreign ownership and control reflected by the D.B.S. studies over the years may not be the pattern in an industrial group where control has been in Canadian hands for some time, and is likely to remain here, barring large scale and concerted efforts by foreigners to alter the situation. In these companies, foreign ownership is motivated by purely investment considerations in the main. It will therefore be valuable to observe fluctuations in the size of this participation that should result from foreign appraisals of Canada's economic prospects and the quality of Canadian management within each industrial group in an increasingly competitive world.

A-3 Components

Public Individuals

143. The number of Canadians in the equity market is lamentably small as the various surveys to which we shall refer herein indicate. The business enterprise is obliged to seek out a tiny percentage of population to find those individuals with incomes or holdings of wealth adequate to engender a willingness to assume the risks of business ownership, especially in new ventures or in established enterprises whose securities have not been "seasoned" in the public market.

144. Extensive surveys have been conducted in the United States with a view to ascertaining the identity of the private investor. These surveys have attempted at various times to segregate security owners by income bracket, age, sex, residence, and occupation. As a result it has been possible to discern trends within the investor universe on the basis of a substantial accumulation of data. The Canadian statistics are not nearly so detailed, however certain estimates may be made on the basis of analogy.

145. Data contained in the 1959 D.B.S. survey of asset holdings of Canadian non-farm families and unattached individuals indicate that a positive relationship does exist between the value of liquid assets held and the value of publicly traded shares. (Dominion Bureau of Statistics, Incomes, Liquid Assets and Indebtedness of Non-Farm Families in Canada 1958 - Queen's Printer 1960, p. 43, Table 28). Such a relationship is to be expected as a direct consequence of the well known tendency

of equity prices to fluctuate within wide ranges. The investor requires a "cushion" of liquidity which is sufficient, in his view, to meet his current needs without compelling him to dispose of his equity investments at a loss in a depressed market. Any factors which limit the investor's need for liquidity or increase his confidence in the stock market will, of course, result in the inclusion of a larger percentage of equities in his total assets. This would assume that no competing investment medium becomes more attractive. Table 2 compares the liquid asset holdings of Canadians with their shareholdings and points out the incidence of non-liquidity. It should not escape notice that less than 5 per cent of all shareholders as compared to more than 31 per cent of all non-shareholders did not hold liquid assets. The smallest shareholders maintained average liquid asset holdings of $3,029 compared with $1,270 held by non-shareholders.

146. However, the foregoing cannot be considered *in vacuo*. The composition of an investor's portfolio of investments results from his exercise of selection among the many available types of securities, and his holdings of total assets stem partly from need and partly from choice. We may properly expect to find that percentage distribution varies from age group to age group, according to income bracket, geographic location, sex, and occupation. A brief review of these will emphasize the salient factors.

i. Total Income

147. A team of Harvard research experts made certain estimates in 1949 that will surprise many people.

Table 2

Percentage Distribution of Non-Farm Families and Unattached Individuals by Liquid Asset Holdings(a) and by Shareholdings, (b) Average Liquid Asset Holdings of Families and Unattached Individuals by Shareholdings, Canada, Spring 1956

Value of Shares Held	Liquid Asset Holdings No Liquid Assets (per cent)	Average Liquid Asset Holdings (Dollars)
under $1,000	5.4	3,029
$1,000 - 4,999	3.5	5,511
5,000 - 9,999	2.9	5,331
10,000 - 24,999	2.6	9,949
25,000 - and over	1.3	18,077
All shareholders	4.1	5,686
Non-shareholders	31.3	1,270

SOURCE: Canada, Dominion Bureau of Statistics, Incomes, Liquid Assets and Indebtedness of Non-Farm Families in Canada, 1958, p.43, Table 28.

(a) Liquid asset holdings consist of current bank accounts, savings accounts in Chartered Banks, other deposits Canada Savings Bonds, other Government of Canada bonds and all other bonds.

(b) Shareholdings include investments in shares that are publicly traded through stock exchanges but no shareholdings in private corporations.

(Effects of Taxation Investments by Individuals - J.K. Butters, L.E. Thompson, L.L. Bollinger, Harvard University, Boston, 1953). These were based upon the results of studies conducted by the Survey Research Centre of the University of Michigan, taxation statistics, and Harvard field studies. The following conclusions were advanced:

(1) Spending units with incomes of $50,000 and over (in the general order of 1/10 of 1 per cent of all spending units) held approximately 35 per cent of all the marketable corporate shares owned by private investors.

(2) Spending units with incomes of $25,000 and over (in the general order of 1/2 of 1 per cent of all spending units) held over 50 per cent of all the marketable corporate shares owned by private investors.

(3) Spending units with incomes of $15,000 and over (in the general order of 1 per cent of all spending units) held over 65 per cent of all the marketable corporate shares owned by private investors.

(4) Spending units with incomes of $10,000 and over (in the general order of 3 per cent of all spending units) held over 75 per cent of all marketable stock owned by private investors.

148. Although personal incomes have risen considerably since 1949 we submit that both in Canada and the United States the relative size of the shareholding units has

Table 3

Percentage of Non-Farm Families and Unattached Individuals Holding Deposits,[a] Mortgage Investments and Shares,[b] Average Holdings of Deposits and Mortgage Investments, by Income Group, Canada, 1959.

Assets		1958 Income Group								All Families & Unattached Individuals
		Under $1,000	$1,000-1,999	$2,000-2,999	$3,000-3,999	$4,000-4,999	$5,000-6,999	$7,000-9,999	$10,000-and over	
Deposit Holders	%	46.4	51.8	60.2	62.9	76.4	82.6	88.2	91.5	68.9
Average Holding Owners Only	$	1,236	1,272	1,348	1,022	1,078	1,399	1,941	4,067	1,480
Mortgage Investment Holders	%	2.4	4.7	4.6	2.8	4.7	4.9	10.1	17.7	5.2
Average Holding Owners Only	$	4,660	4,654	6,455	5,012	6,306	7,313	7,496	11,496	7,122
Shareholders	%	2.3	3.7	5.7	3.8	6.2	12.5	20.9	43.8	9.2

a) Deposits include current and savings accounts in Chartered Banks and deposits in other institutions such as trust companies.

b) This includes investments in shares that are publicly traded through stock exchanges but not share holdings in private corporations.

Source: Dominion Bureau of Statistics, Incomes, Liquid Assets and Indebtedness of Non-Farm Families in Canada, 1958 (Ottawa, Queen's Printer, 1961), pp. 41-42, Tables 22, 26 and 27.

broadened only slightly.

149. It is to be expected that two aspects of asset holdings will be related to the individual's income level: namely, the likelihood that a particular type of asset will be held and the value of the different types of assets that are held. Certain of these relationships are apparent in Table 3 hereof which has been drawn from the 1959 D.B.S. survey of asset holdings of non-farm Canadian families and unattached individuals. It will be noted that the percentage of families and unattached individuals holding certain types of assets at varying income levels differs significantly depending upon the type of asset. The Table also reveals that the value of the asset held is subject to wide variations.

150. This submission restricts itself to the factors which influence an individual's investment in the shares of public corporations. We have therefore avoided the intriguing subject of his other assets and the shifting patterns which they exhibit. However, at certain times it will be necessary to illustrate the whole of the individual's liquid holdings as in Table 3 so that the position occupied by equity investments might be viewed in its proper context.

151. The significance of income levels upon the incidence of shareownership is illustrated from a slightly different aspect in Table 4. The proposition that the shareholding group is indeed a small segment of the population is further emphasized in this Table. An indication of the relative popularity of the three types of investment is obtained by ranking them in order of

their frequency of occurrence within each income group. Table 4 reveals that the frequency with which the holdings of $5,000 and over in publicly traded shares occurred within the $10,000 and over income group was almost the same as that for bonds, whereas shares were the least frequently held investment of this size within all other income groups.

152. It should also be observed that the incidence of mortgage investments of $5,000 and over was greater than that of shareholdings of the same size for all income groups up to $9,999 but that for the $10,000 and over group, the frequency of shareholdings of this size was almost twice that of mortgage investments. One would expect that, because the units in which mortgage investments can be obtained are generally larger than those required in the case of shares, the reverse situation should obtain. The most plausible explanation is that the mortgage investment results from the sale of property originally owned by the mortgage holder. Consequently, the acquisition of the investment was incidental to the sale and not a selective transaction as in the case of the purchase of shares.

153. The impact of taxation upon the individual's choice of his investments will be dealt with in a later section of this submission. Suffice it to say at this juncture that, as his income increased, the investor becomes increasingly sensitive to tax savings offered by various investment media.

154. Appendix VI has been extracted from the 1961 Taxation Statistics issued by the Department of National

Table 4

Percentage of Non-Farm Families and Unattached Individuals With Holdings of $5,000 and Over of Selected Assets, by Income Group, Canada, 1959

Asset Group		1958 Income Group							
		Under $1,000	$1,000-1,999	$2,000-2,999	$3,000-3,999	$4,000-4,999	$5,000-6,999	$7,000-9,999	$10,00 and over
Bonds[a]	%	1.7	3.3	3.6	1.9	1.5	3.0	4.7	19.0
Mortgage Investments	%	0.8	1.4	2.3	1.4	1.6	2.2	4.7	9.9
Shares[b]		0.5	1.0	1.6	1.0	1.2	1.6	2.8	19.1

a) This comprises holdings of Canada Savings Bonds, other Government of Canada bonds, plus other holdings, such as corporate, provincial and municipal bonds.

b) This includes investments in shares that are publicly traded through stock exchanges but not shareholdings in private corporations.

Source: Dominion Bureau of Statistics, Incomes, Liquid Assets and Indebtedness of Non-Farm Families in Canada, 1958, pp. 41-42, Tables 24, 26 and 27.

Revenue. Through a re-arrangement of the data provided in this publication we have attempted to provide a basis of comparison with the American statistics which are the end result of special surveys inquiring into the subject at hand. The use of these data is subject to certain reservations. The more acceptable sample would have been based upon all individuals who received income. Assumptions have to be made with respect to the value of the asset from which the reported income was derived. There have been no Canadian studies to our knowledge which attempted to ascertain the degree of error in the statistics of income based upon tax returns. Several U.S. studies have been made to delineate this factor. Thomas R. Atkinson in his book, The Pattern of Financial Asset Ownership - Wisconsin Individuals - 1949 (Princeton University Press, 1956) summarizes these studies and contends that in the U.S.A. 60 per cent of all non-federal cash interest payments and 33 per cent of all corporate dividend payments in 1947 went unreported on federal income tax returns in that year. Whatever the case may be in Canada, it is almost certain that a substantial understatement of debt earnings takes place in the case of lower income groups. The dividend income will also be understated but to a much lesser extent.

155. Reference is made to Exhibit "A" of Appendix VI which sets forth the distribution of investment income by sources within various income classes. Income received from each of the six sources of investment income is expressed as a percentage of total investment income which in turn is shown as a percentage of income from

all sources. It will be noted at once that equity investments generally provided a higher percentage of investment income as the income level rose. In fact, equity investments provided 61.7 per cent of the investment income of the $100,000 and over income group as compared to only 42.8 per cent of the investment income received by the $1,000 and under group. On the other hand, creditor assets supplied 52.6 per cent of the $1,000 and under group's investment income as compared to only 20.1 per cent of that of the $100,000 and over group. It is important to recognize that this change may not have been accompanied by a proportionate change in the distribution of the dollar value of the assets from which the investment income resulted. The change might also be the consequence of a variation in the yields obtainable by different income groups. That is to say, that the quality of the equities purchased might differ among the various income groups. However it is debatable whether such factors would be strong enough to result in such a large percentage shift in investment income. We therefore make the assumption that the greater part of the distribution change resulted from a corresponding change in the relative dollar values of the assets held.

156. The emphasis on equity investments as income rose was matched, to a very large extent, by a shift away from bond holdings and bank deposits. We make the assumption that this change in the investment pattern stemmed from a decreased need (in relative terms) for liquid assets as income rose. Exhibit "A" of Appendix VI reveals significant differences that existed in the rates at which

the individual components within the creditor income group declined as income rose. Bond and bank interest decreased gradually with only one minor exception. Nevertheless, mortgage interest remained a relatively constant proportion of the total investment income up to the $10,000 level. The stability of the latter, we attribute to the prevalence of "balance of payment" mortgages arising as a result of the sale of a house once occupied by the investor as his dwelling place.

157. Exhibit "B" of Appendix VI makes it apparent that there was a substantial concentration of the various types of investment income within certain income classes. The similarity between the statistics set forth in this Table and the conclusions reached in the Harvard University survey referred to above is worthy of consideration. Exhibit "B" reveals that over 65 per cent of the total dividends were reported by individuals receiving total incomes of $8,000 and over. However, tax returns from this group comprised only 4 per cent of total returns, and their total income was only 16 per cent of that reported by all individuals. The Harvard study suggests that, in a relative sense, there maybe slightly narrower base for stock ownership by individual investors in the U.S.A. However, this conclusion is advanced with extreme caution and it must be emphasized our statistics relate to dividends whereas the Harvard statistics are based upon the dollar value of shares held, and the difference in the dates of the two studies must be stressed.

158. The similarity between Canadians and

Table 5

Frequency of Ownership of Publicly Traded Shares by Family and Unattached Individuals[a], by Income Groups, Canada, Spring 1959 and United States, 1960.

CANADA		UNITED STATES	
1958 Income Group	Holders of Publicly Traded Shares	1960 Income Group	Holders of Publicly Traded Shares
	%		%
Under - 1,000	2.3		
1,000 - 1,999	3.8		
2,000 - 2,999	5.7	Under - 3,000	5
3,000 - 3,999	3.8	3,000 - 4,999	7
4,000 - 4,999	6.1		
5,000 - 6,999	12.5	5,000 - 7,499	13
7,000 - 9,999	20.9	7,500 - 9,999	23
10,000 - and over	43.7	10,000 - 14,999	36) 43[b]
		15,000 - and over	55)
All Groups	9.2	All Groups	14

a) Farm families and unattached individuals are included in the United States data, but are omitted from the Canadian data.

b) The figure for the $10,000 and over group was calculated by combining the number of cases in the $10,000 - $14,999 and $15,000 and over groups. The number of cases are given in the 1960 Survey of Consumer Finances, p. 100, Table 6-1.

Sources: Dominion Bureau of Statistics, Incomes, 1958, p. 42, Table 27 and The University of Michigan, 1960 Survey of Consumer Finances, p. 100, Table 6-1.

Americans with respect to percentage distribution of shareownership on an income basis is more vividly revealed by Table 5. The Table compares data from 1959 D.B.S. survey with that produced by the University of Michigan's 1960 Survey of Consumer Finances. From this Table it can be seen that for incomes below $5,000, the percentage of Americans holding shares in 1960 was generally higher than that of Canadians at corresponding levels in 1959. However, for incomes above $5,000, the percentage who held publicly traded shares in 1959 was almost identical to that of Americans in the same income brackets in 1960.

159. The shareholdings of individuals with incomes above $5,000 represented most of the value of all publicly traded shares owned by individuals in both Canada and the United States. Exhibit "B" of Appendix VI discloses that Canadians with incomes above $5,000 reported nearly 80 per cent of total dividends in 1959. Once again an even greater concentration appeared to exist in the United States. In 1960, families with incomes above $5,000 held 90 per cent of the total. (Survey of Consumer Finances, University of Michigan, 1960, p. 101, Table 6-2). One is tempted to conclude, therefore, that the value of shares held by Americans with incomes below $5,000 is proportionately less than that held by Canadians when the holdings of these income groups are compared to those of the American and Canadian income groups above $5,000.

160. The real difference between Canadian and American investors is not their investment propensities, but rather their investment capacities. Both the median and the mean income of Americans were higher than those of

Canadians, being $4,830 and $5,580 for Americans as compared to $3,783 and $4,544 for Canadians in 1958. The same relationship also held true in 1955 when the American median and mean were $4,260 and $5,060 and the corresponding Canadian figures were $3,324 and $3,842. (Canadian data are from D.B.S. Incomes 1958, p. 29, Table 4, and D.B.S. Incomes 1955, p. 27, Table 3. American data are from The University of Michigan, 1960 Survey of Consumer Finances, p. 11, Table 1-2.) American incomes probably have always been at a higher level than Canadian incomes. One may also expect that Americans would have larger holdings, in absolute terms, than Canadians of all types of assets.

161. Appendix VII sets forth the salient statistics resulting from the 1962 Census of Shareowners conducted by the New York Stock Exchange. For the most part, similar data do not appear to be available in Canada, and we have not been able to ascertain whether or not a survey has ever been conducted here with a view to developing such information. As a result we have had to proceed on the basis of a partial comparison using data obtained for other purposes. Exhibit "C" of the Appendix presents a study of the numbers of shareholders falling within certain income groups. Apparently 45 per cent of all shareowners in the U.S.A. are in the $5,000 - $10,000 income bracket. Significantly, shareownership has increased markedly since 1959 among the persons in the $10,000 - $25,000 income brackets at the expense, numerically, of the smaller income earner. We made the assumption that, on the basis of similarities already

established and comparisons to be discussed later on in this submission, approximately the same distribution obtains in Canada.

162. Finally, Appendix VIII has been prepared to summarize the distribution of liquid assets among families and unattached individuals in the Province of Quebec based upon the 1958 Income Groups. This region is of fundamental importance to our Exchange and, we submit that the divergence from the national figures with respect to equity ownership underscores a profound conservatism on the part of the Quebec public, which is not the case with the Quebec investor. That aggregate investment held per family or individual should be smaller in Quebec than in the rest of Canada causes little surprise because of the relatively low average income per unit. The significance of Exhibit "E" of the Appendix becomes apparent when it is compared with Table 5 hereof. It appears that, for example, 6.1 per cent of the $4,000 - $4,999 income group owned publicly traded shares on a national average, whereas in Quebec for the same income group the comparable figure was 4.6 per cent. This marked resistance to equity ownership persists throughout all income levels in Quebec; the lowest bracket showed only slight divergence from the national average, 2 per cent as compared to 2.3 per cent. However, in all other brackets the difference is extreme; $2,000 - $2,999 -- Quebec 1.8 per cent contrasted to 5.7 per cent nationally; $10,000 and over -- Quebec 29.3 per cent compared to 43.7 per cent nationally. This situation is to be especially regretted in a province like Quebec where the need for equity participation in

resources development and in industrial projects is very great. Although we have chosen to interpret Appendix VIII as evidencing a reluctance to invest in equities on the part of the Quebec investor, it might be suggested that because of the tremendous foreign investment in his province, the Quebecer has not had an adequate opportunity to invest in equities issued by local enterprises. To some extent this is no doubt true, nevertheless as we shall attempt to further establish under sub section (iii) (Location of Shareowners) hereof, the innate conservatism of the Quebec public is the predominant factor involved in its relatively small equity ownership.

ii. Occupation

163. The obvious difficulty impeding any study designed to ascertain the influence of various factors upon the willingness of the individual to acquire equities is that posed by the inter-action of all these factors. Thus it is that while a pattern of equity ownership among various professions may be isolated, it is not possible to establish whether it is the professional training and environment per se that influence the invester or whether, once again, the predominant factor is the income which the individual emjoys as a result of being engaged in a lucrative profession or trade. With these difficulties in mind, one may nonetheless make certain assumptions with respect to the influence of occupation upon the individual's demand for equities.

164. Probably the basic influences that occupation has upon an investor's predilection for certain securities will be two-fold. In the first place, his occupation may

equip him with the understanding of various investments which would precede confidence. Secondly, occupation may place him in a favoured position with respect to the ease with which he might acquire various securities. Thus one would expect to find differences in the distribution of investments within occupational classifications even when all other characteristics such as the size of total income, location and age are similar. There would ordinarily be a bias in favour of those investments most closely associated with occupation.

165. Exhibit "C" of Appendix VI shows the distribution of investment income by sources within each occupation listed in the 1961 Taxation Statistics. Income received is classified under six sources and appears both as a percentage of total investment income and as a percentage of income from all sources. The occupations are listed in descending order of the average total income from all sources reported by the general occupation classifications. The sub-classifications within each general group are then ranked in descending order within the general classification. This ranking method allows some recognition to be given to possible income effects when comparisons are made between specific occupations or between occupational groups. It is noted that significant variations existed in the 1959 investment patterns. The differences were not restricted to any one group, but instead occurred in all general groups that had two or more sub-classifications. We do not suggest that all of the variations were attributable to occupational differences. Regional and income factors among others also

played a part. Nevertheless, evidence of occupational influence is present. Accountants reported the highest percentage of investment income from dividends in 1959 even though their average income was lower than that of medical doctors, consulting engineers, architects, lawyers and dentists. One tends to the view that this may result from the specialized analytical skills possessed by accountants enabling them to assess the profit potential of corporations. Similarly the legal profession is expected to have access to information and investment opportunities in the mortgage field. In 1959 lawyers and notaries reported 22 per cent of their total investment income from this source. This was more than double the mean of 10.5 per cent for all returns.

166. The survey conducted by the New York Stock Exchange (Appendix VII Exhibit "D")does not permit a close comparison with available Canadian statistics because of the groupings of occupational classes employed therein. In addition the Canadian statistics do not subdivide the shareholding group by occupation, while the U.S. data restricts itself to a vertical analysis of this group. The New York Stock Exchange survey states that the highest incidence of shareownership, by occupation, occurs in the professional and semi-professional group wherein it is estimated that more than 1 out of 3 persons owns stock. Among proprietors, managers and officials, the U.S. incidence is almost 1 out of 3. The lowest incidence of shareownership, by occupation -- fewer than 1 out of 50 -- occurs among farmers and farm labourers. One is inclined to expect a similar relationship in Canada.

167. Canadian statistics show a high proportion of total investment income from financial assets being received by one occupational group. Reference to Exhibit "D" of Appendix VI indicates that nearly 60 per cent was reported by individuals classed as "investors" even though this group filed less than 3 per cent of the total tax returns and reported less than 4 per cent of the total income. By definition, individuals in this classification derived the greater part of their income from holdings of financial assets. Since the average total income of these individuals exceeded $4,400 and investment income comprised over 76 per cent of their total income, the size of their holdings was obviously substantial. (Exhibit "C", Appendix VI).

168. There was also a significant concentration of income within the investor occupation itself. Exhibit "E" of Appendix VI reveals that, although investors reporting incomes in excess of $8,000 comprised less than 11 per cent of the group, this segment received over 49 per cent of the group's total income. If it is assumed that the proportion of investment income and income from other sources did not vary over the income range of the investor occupation, it can be stated that individuals in this occupation who reported incomes in excess of $8,000 received almost 30 per cent of the investment income reported by all Canadians. These individuals filed less than 1/3 of 1 per cent of total returns.

169. The comparison set forth in Table 6 reveals that employees of businesses received a considerably higher percentage of their investment income as dividends than

did other employee groups. This diference may have resulted in part from the close relationship that sometimes exists between ownership and employment in closely held corporations. The widespread incidence of employee stock-option plans may also have contributed to this relationship.

iii. Location

170. Once again our Canadian data must be derived from taxation statistics based upon taxable investment income.

171. The substantial percentages of investment income as reported by the 1961 Taxation Statistics were received in the three provinces of British Columbia, Ontario and Quebec. Taxpayers in these provinces reported $680.9 million or 80.7 per cent of the total investment income. However, the same group filed only 76.4 per cent of the taxable returns. As a result it appears that this group of taxpayers received an average amount of investment income slightly higher than those residing in the other provinces taken as a group. A more detailed comparison appears in Appendix VI as Exhibit "G". The concentration of investment income in the aforesaid three provinces is to be expected because in the sequence mentioned these provinces ranked first, second and fourth in terms of average total income per taxpayer.

172. Exhibit "F" of Appendix VI reviews the percentage distribution within each province of total investment income among the six sources. Care must be taken when analyzing the significant variations that appear. The comparison is complicated by variations in

TABLE 6

Dividends as a Percent of Total Investment Income Reported for Income Tax Purposes, and Percent of Individuals Reporting Income from All Sources of $8,000 and Over, by Employee Groups, Canada 1959

Employee Group	Percent of Total Investment Income Received as Dividends	Percent of Individuals Reporting Incomes of $8,000 and over[c]
Employees of Businesses	41.1[a]	3.0
All other Employees	26.5[b]	2.6

Sources: a) Table I C

b) Canada, Department of National Revenue, 1961 Taxation Statistics (Ottawa, Queen's Printer, 1961), pp. 40-41, Section 11, Table 3.

c) Ibid., p. 82, Section 11, Table 10.

the size of units and the overlapping of economic units across provincial boundaries, nevertheless a pattern of equity ownership resulting from geographical determinants of economic activity within the area may be discerned.

173. Initially one tends to the view, for example, that the relatively high proportion of total investment income received as dividends in Nova Scotia may have resulted from the propensity of investors in that province to purchase shares as opposed to other investment media. However, the low percentage of investment income from mortgages, 2.9 per cent as compared to the national average of 10.3 per cent may simply result from the unavailability of mortgage investments in Nova Scotia to an occupational group which we have previously suggested would be likely to invest in this medium, namely the farmers. Studies have indicated that most of the farm land in Nova Scotia is only of marginal quality with the result that farm income in Nova Scotia is substantially below the national average. (In the period 1951-1953, the income per farm in Nova Scotia was less than one half the national average. Source: Donald F. Putnam (ed.) Canadian Regions, a Geography of Canada - J.M. Dent & Sons (Canada) Limited, 1961, p. 511.) In addition to lack of funds, the typical mortgage investor may be confronted by another limiting factor in terms of the small mortgageable values available in the Province. A distortion may result from the non-taxability of many low income individuals which would exclude their investment income from our data.

174. The 1959 pattern of investment income received

by taxpayers in the Yukon and Northwest Territories appears to add validity to the hypothesis that the economic and geographical nature of a region is likely to influence an individual's investment practices. This region is likely to provide relatively few opportunities for financial investment locally; for example in rental properties and mortgages. One would therefore expect investors residing in this area to receive a large proportion of their investment income from investments associated with economic activity outside the area. Publicly traded shares are likely to be the easiest outside investment to evaluate and obtain, thereby resulting in the high percentage of investment income received as dividends (nearly 49 per cent).

175. Canadian data segregating investment income by size of center are also derived from information provided in the 1961 Taxation Statistics. In certain cases distortions will result from the exclusion of suburban areas from the central metropolitan complex with which these are associated. The statistics segregate income by source for centers accounting for 4,000 or more taxable returns; however, returns from all other communities and from farming areas in each province were grouped under the general heading "all other areas".

176. Exhibit "I" of Appendix VI divides the value of reported investment income under the six sources grouped against each size of center. The Exhibit reveals that over $575 million, or nearly 69 per cent of the national total was reported by taxpayers residing in centers of 25,000 returns and over. Taxpayers in these centers

reported 57 per cent of income from all sources. It is apparent, therefore, that investment was substantially more concentrated than income from all sources in these centers.

177. Exhibit "H" of Appendix VI shows the percentage distribution among the six sources of investment income within each center of grouping. Certain significant trends are apparent from this Exhibit. The percentage of investment income derived from dividends rose without exception in population groupings from 30.5 per cent in areas of under 4,000 returns to 38.8 per cent in centers of 110,000 returns and over. Estate income as a percentage of total income followed the same pattern. Contrasted with this, the proportion received as bond and bank interest, and as mortgage and other interest, declined without interruption as the center size increased. The proportion received as rental income followed a less consistent pattern, dropping slightly for both the very large and the very small centers. In general terms, income from equity investments formed an increasing proportion of total investment income as the size of center increased.

178. Again the New York Stock Exchange survey analyzes the physical concentration of equity holders from a different aspect; however, the results are substantially the same on a comparative basis. Exhibit "I" of Appendix VII segregates shareowners of public corporations by city size as estimated by statistical methods for the years 1962 and 1959. The question of values represented is not dealt with; however, on the basis of the Canadian taxable dividend statistics cited above, one is inclined to expect

a substantial concentration in the larger centers where most of the shareholders seem to be located. The main significance of the U.S. data is the suggestion that an increasing percentage of persons resident in the larger centers are becoming shareholders. The most recent results of the survey indicate that 1 out of 8 city-dwellers was a shareowner, compared with 1 out of 11 in 1959. In rural areas 1 out of 29 persons was a shareowner, approximately the same ratio as in 1959.

179. The Physical Characteristics related to the size of the center may account for the shareholder concentration in the larger cities. As center size increases there is likely to be a higher incidence of the corporate form of business organization and hence an increase in the frequency of ownership and employment inter-relationships. Brokerage facilities are usually available in the larger centers only. Newspaper coverage of financial news is usually broader in these areas. However, although services such as these may in themselves promote equity investment, the main justification for their existence is more likely to result from economic factors, such as income, associated directly with the residents of urban communities. Thus it is noteworthy that the proportion of taxpayers who reported incomes above $8,000 rose from 4.0 per cent in centers of under 4,000 taxpayers to 6.4 per cent in centers of 110,000 and over. In addition, the average income per taxpayer rose from $3,874 in the former to $4,293 in the latter. It is possible, therefore, that the relationship between equity investments and center size was largely a reflection of income differences among the

centers.

180. The variations in investment practices between Quebec and Ontario residents are compared in Exhibit "J" of Appendix VI. The comparison of this Table with Appendix VIII produces certain interesting contrasts. Restricting ourselves to the data respecting equities we note that although the percentage of Quebec residents owning shares was far less than the similar ratio for the rest of Canada, nevertheless the Quebec investor in all centers derived a substantial percentage of his investment income from dividends, more so than Ontario residents in the larger centers. Exhibit "J" also shows that the groups of Ontario taxpayers, who received a higher proportion of income from investments than Quebec taxpayers, included a greater percentage than their Quebec ounterparts of taxpayers reporting incomes of $8,000 and over. Although the equity investment in Quebec is concentrated in relatively fewer hands, the investing segment of the Quebec population holds more equities on a percentage basis than the comparable group in Ontario. This is not true of the general public in Quebec as pointed out in our comments under sub section (i) hereof.

iv. Sex, Age, Educational Background

181. The inter-relationship of these characteristics and those already discussed is such that only a brief review of statistical summaries is considered warranted for the purpose of this submission.

182. Age, for example, is a factor which is likely to be confounded with size of total income. This is a characteristic that will probably relate to the size of

of the individual's tangible net worth and his investment pattern. This factor could be safely ignored when making income level comparisons only if the age distribution within each income class were identical. As would be expected, this is not the case. Data contained in the 1959 D.B.S. survey on the distribution of 1958 (Canada, Incomes, Liquid Assets and Indebtedness of Non-Farm Families in Canada, 1958) income groups indicates that both from a point of view of accumulated net worth, and the need for liquidity, age affects some income groups more than others. Illustrative of the net worth accumulation factor is the fact that a greater than average number of family unit heads in the 40-49 and 50-64 age groups were located in the $10,000 and over income group; 7.9 per cent of the 40-49 group and 8.3 per cent of the 50-64 group as compared to 5.6 per cent undifferentiated as to age. (Ibid, p. 30, Table 5). Illustrative of the potential influence of liquidity needs changing with age is the fact that although only 22.4 per cent of all family heads and unattached individuals were located in the under $2,000 income group, this group contained 55.0 per cent of all family heads and unattached individuals 65 and over. (Ibid., p. 29, Table 4).

183. The segregation of shareholders by age, (Exhibit "B"), sex, (Exhibit "A"), and education, (Exhibit "D") has been attempted by the New York Stock Exchange study (Appendix VII). No comparable Canadian data are available although on the basis of the comparison of other investor characteristics made in this submission, we would expect similar results from a Canadian survey.

In brief, the U.S. statistics show that shareownership is evenly divided between the sexes (again without reference to values represented); the highest incidence in shareownership was noted in the 45-54 age group with an outstanding increase in shareownership recorded among minors (The New York Stock Exchange attributes this latter increase to new laws in all 50 States of the Union, designed to facilitate the gift of securities to minors); among adult shareowners more than half have some college training (again this factor and the income factor are closely related).

184. Regrettably, no Canadian studies have been conducted with a view to ascertaining the method of stock acquisition on a comparative basis. Exhibit "G" of Appendix VII shows the results of the New York Stock Exchange study in this regard. It is difficult to estimate what a Canadian study would reveal, however, some similarity with the U.S. would be expected. The percentage of purchases through banks would probably be smaller in Canada although this is by no means certain.

Life Insurance Companies

185. The extent to which the Life Insurance Industry constitutes a market for Canadian equities is, of course, limited by statute and by the investment policy of the various companies of which the industry is composed. The implications of recent amendment to the Canadian and British Insurance Companies Act will be considered in this submission under section B as a factor influencing the demand for equities.

186. The position occupied by equities in the

investment portfolio of the industry is summarized in Table 7.

187. If we accept the admitted approximation that market values for the shares owned by Canadian Insurance Companies were double the book values shown in Table 7, the total value of Canadian equities in the hands of the Insurance Industry as of the end of 1960 becomes $220 million. Although the comparison may overstate the case somewhat, the minute position of the Life Insurance Industry in the Canadian equity market is apparent when it is recalled that the value of listings on our Exchanges at the end of 1960 totalled $43,582,816,343. Admittedly, the value of the listed shares that qualified as legal investments under the Canadian and British Insurance Companies Act would produce a much smaller sum. Our estimate of the December 31, 1960 market value for these securities is $31,409,797,294. Any formula consistent with sound actuarial concepts designed to increase the percentage of Canadian common stocks in the assets of insurance companies from the present figure of 2.92 per cent (book value) would be unmistakably in the national interest. The problem relates as much to the supply of equities as it does to the investment policy of the insurance industry and the legal framework within which such policy must be developed. As a result of the relatively few "trust grade" investments available here, adequate diversification often becomes a goal difficult to attain in large portfolios limited to Canadian equities. In addition, certain "trust grade" markets are extremely sensitive to volume changes

so that large holdings of these securities must be disposed of over long periods of time to avoid artificial price changes which could become most pronounced under the impact of heavy selling or buying. These "thin" markets are of great concern to the portfolio manager seeking flexibility.

Trust Companies

188. The wide range of investment activities in which Canadian Trust Companies are engaged enables their participation in the equity market under conditions of relative freedom as contrasted with the restrictions imposed upon the Life Insurance Industry. While it is true that the various Provincial Trust Companies Acts, and the Federal Act, regulate the investments which may be made by the trust companies with regard to their own capital and guaranteed investment obligations, nevertheless many trusts are administered by these companies free of any restraint whatsoever except for the "prudent man" rule. The investment powers conferred by the appointing documents govern in these circumstances.

189. Your Commission has already been supplied with statistical summaries that indicate the extent of the assets owned and administered by trust companies and the analyses of these under various categories. We do not propose to duplicate the submission of the Trust Companies Association of Canada in this regard. We would point out, however, that the percentage of common stocks in the portfolio of Trusteed pension funds administered by Trustees appears to be considerably lower when classified by the Dominion Bureau of Statistics. (Trusteed Pension

Table 7

Equity Investments Held in Canada by Federally Registered Companies

	End of 1960					
	Canadian Insurance Companies		United Kingdom Insurance Companies		United States and Other Insurance Companies	
	$000,000	% of total assets	$000,000	% of total assets	$000,000	% of total assets
Canadian Stocks						
Preferred	15	.26	6	1.11	2	.11
Common	95	1.66	58	10.76	-	-
Foreign Stocks						
Preferred						
Common	70	1.22	-	-	-	-
Total	180	3.14	64	11.87	2	.11

Table 8

Classification of Assets by Type of Trusteed Fund, 1960

	Corporate Trustees									
	Individually Managed		Pooled		Pension Fund Societies		Individual Trustees		Total	
	$000's	%	$000's	%	$000's	%	$000's	%	$000's	%
adian Stocks										
Preferred	10,910	1.0	543	0.4	7,016	1.7	8,784	0.4	27,254	0.8
Common	112,836	10.4	3,555	2.9	22,440	5.4	116,258	5.8	255,069	7.0
Non-adian Stocks										
Common	6,403	0.6	231	0.2	3,966	1.0	12,460	0.6	23,060	0.6
al	130,149	12.0	4,329	3.5	33,424	8.1	137,501	6.8	305,403	8.4

Plans Financial Statistics 1960 - Dominion Bureau of Statistics 1962, Table 10, p. 15) on a book value basis, than when reported by the Trust Companies Association on a market value basis. We are advised that the Association reported to your Commission that the range of investment in common stocks invested by corporate trustees under Trusteed pension plans would range between 20 per cent - 40 per cent of the total portfolio on a basis of market value. Table 8 summarizes the Dominion Bureau of Statistics data and shows a total common stock investment of 11 per cent for individually managed trusts and 3.1 per cent for pooled trusts both administered by corporate trustees.

190. If the national data ultimately reveal 20 per cent - 40 per cent of the total fund assets to be in common stocks, the depth of demand for equities across the nation will increase tremendously as a result.

Trusteed Pension Plans

191. Tables 9 and 10 summarize the 1960 Dominion Bureau of Statistics data relating to the percentage of Trusteed funds consisting of Canadian stocks and non-Canadian common stocks, classified by size of funds.

192. Table 8 has previously revealed that 8.4 per cent of the assets of Trusteed pension funds were invested in Canadian stocks and non-Canadian common stocks in 1960. This compares with 7.9 per cent in 1959. An increase of 6 per cent in the total amount of these securities is indicated for the period 1959-1960. It is noted that, during both years, funds ranging between $1,000,000 - $4,999,000 invested a larger

percentage of their assets in Canadian stocks than did the other size categories analyzed.

Investment Companies and Mutual Funds

193. The Investment Dealers' Association has submitted a review of this industry in its brief tabled before your Commission. We will not duplicate this thorough description.

194. The remarkable growth record achieved by mutual funds is vividly portrayed in a recent industry survey. This authoritative study revealed that the market value of Canadian common stocks owned by Canadian mutual funds as of December 1951 totalled $42,901,346. These holdings increased to the extremely significant total of $485,003,425 by December 31, 1961. Preferred and common stock holdings at market totalled $688.8 million as of March 31, 1962. This compares to $260.7 million of the same class of securities as of March 31, 1957. Clearly a substantial demand for equities is being stimulated by these funds.

195. No information is available as to the equity holdings of non-resident owned funds although, according to industry officials, organizations are known to be disposing of their Canadian holdings in favour of European equities.

196. Canadian closed-end investment companies as at the end of 1961 held slightly in excess of $150 million (market value) of Canadian common shares. Canadian investment holding companies at the same date held $200. million at market value in Canadian common shares. It is conceivable that the large percentage represented by

Table 9

Trusteed Pension Plans

Classification of Assets by Size of Assets of Funds, 1959

Assets	$0-99,000		$100,000-999,000		$1,000,000-4,999,000		$5,000,000-24,999,000		$25,000,000 and over		Total	
	$000's	%	$000's	%	$000's	%	$000's	%	$000's	%	$000's	%
Canadian Stocks												
Preferred	97	1.0	2,833	2.3	6,907	2.3	6,191	0.9	15,377	0.7	31,405	1.0
Common	447	4.5	12,027	9.5	32,743	10.7	50,414	7.5	109,017	5.2	204,648	6.4
Non-Canadian Stocks												
Common	46	0.5	292	0.2	2,005	0.6	2,425	0.4	10,621	0.5	15,391	0.5
Total	592	6.0	15,152	12.0	41,655	13.6	59,030	8.8	135,015	6.4	251,444	7.9

Table 10

Trusteed Pension Plans

Classification of Assets by Size of Assets of Funds, 1960

Assets	$0-99,000		$100,000-999,000		$1,000,000-4,999,000		$5,000,000-24,999,000		$25,000,000-and over		Total	
	$000's	%	$000's	%	$000's	%	$000's	%	$000's	%	$000's	%
Canadian Stocks Preferred	111	0.7	2,816	1.7	6,372	1.7	4,775	0.6	13,180	0.6	27,254	0.8
Common	601	3.9	16,659	10.3	40,947	11.2	63,053	8.1	133,829	5.8	255,089	7.0
Non-Canadian Stock Common	61	0.4	481	0.3	3,584	1.0	4,498	0.6	14,436	0.6	23,060	0.6
Total	773	5.0	19,956	12.3	50,903	13.9	72,226	9.3	161,445	7.0	305,403	8.4

corporate transactions appearing in the transaction study by our Exchanges may be accounted for by these companies increasing their equity position at favourable prices following the market sell-off during May.

Industrial Corporations

197. There are no statistics available as to the equity transactions of corporations whose primary function is not dealing in securities. One would expect that these would ordinarily constitute a small percentage of the equity market. The investment accounts of these entities consist in the main of debt securities by varying maturity issued by Canadian political units and high grade bonds of other corporations. These investments consist of funds, temporarily idle in terms of the corporate undertaking, from which income is desired. In most cases these funds will be transferred from the investment account of the corporation after a relatively short period to be utilized as operating assets such as inventory or new plant or to meet dividend, tax, and other cash outlay demands of an intermittent nature. Only under unusual circumstances will equities be acquired by industrial corporations because these would ordinarily fail to meet the requirements of liquidity or short term immediate income flow generally required. The acquisition of equities by industrial corporations usually stems from the desire of a holding company to enlarge its position, or the unique situation existing in certain industries from time-to-time where surplus funds and specialized knowledge are combined to acquire an equity interest in complementary enterprises for

investment purposes.

Stock Brokers and Security Dealers

198. Exhibit "G" of Appendix IV represents the only data available as to the equity purchases by members of our Exchanges other than the results of our first transaction study (Exhibit "A" Appendix IX). The implications of both sets of data are obscured by arbitraging practices; however, it is safe to assume that we are considering a market component of negligible importance in the overall demand for equities in Canada.

199. There are no statistics available with regard to equity purchases by investment dealers. The underwriting responsibilities of this group will require dealers to take a position as principal in various stock issues from time-to-time and, accordingly, their equity holdings will exceed those of the brokers by a substantial margin. Certain houses purchase securities for investment purposes; however, once again the size of this demand is insignificant in terms of the available equities.

Miscellaneous

200. Various entities such asprivate investment trusts, University Ednowment Funds, and other fiduciary groups that purchase Canadian equities cannot be classified under any of the foregoing components.

201. These are not believed to be of significant size and perhaps the largest single group are the investment clubs whose aggregate investment in Canadian equities has been estimated at $10 - $20 million.

B. Legislative Factors Influencing the Demand for Equities

B-1 General

201. We have restricted our consideration of the factors which influence the demand for equities to those of legislative origin. The impact of economic factors upon the stock market has been the subject of extensive research and editorializing. Consequently, any comments of ours would contribute little to the understanding of the basic economic forces that stimulate or depress security prices. Instead we have reviewed those stimuli which may be utilized by various governmental bodies to shift or intensify the demand for equities.

B-2 Legislation Regulating Institutional Buyers

Insurance Companies

202. Sweeping amendments to the Canadian and British Insurance Companies Act and the Foreign Insurance Companies Act were enacted in 1961 for the purpose of widening the investment powers of insurance companies in Canada. These were the first comprehensive revision of Canadian insurance legislation in ten years and it was predicated that a substantial increase in the demand for Canadian equities would result.

203. Briefly, the amendments established the authority for insurance companies to issue variable annuities backed up with segregated funds which could, if investment policy ordained, consist entirely of common stocks provided that these meet the qualitative requirements of the Act.

204. In addition, although the percentage of assets which a life insurance company may invest in common shares (exclusive of segregated funds allocated to variable annuity contracts) remains unchanged at 15 per cent, the limit is prescribed in terms of the total assets of the company rather than, as formerly, the total ledger assets. Ledger assets include stocks, bonds, mortgages, real estate, policy loans and cash, or about 98 per cent of the company's total assets. Non-ledger assets include such items as due and accrued interest, outstanding premiums and other accounts receivable. The investment powers of these companies were broadened with respect to other assets; however, these changes are not pertinent to the subject under review.

205. In the light of the industry's relatively small investment in equities, we would expect an increase in the annual participation of life insurance companies in the equity market over the net additions of $10 million made in 1960 to take advantage of these new legislative provisions. However, our discussions with industry officials have produced opinions in support of the contention that no spectacular increase in demand can be expected. Most companies will not increase their equity participation because of changes in the "15 per cent rule" and the variable annuity programs of all companies are developing slowly. A large number of companies will encourage split-funding of pension plans, thereby reducing the impact of the variable annuity concept upon the equity market. This is not unexpected

since even the Trusteed pension plans with their broad investment powers invest relatively small percentages of their total assets in common stocks as revealed by Table 8, 9 and 10 of this submission.

206. There are no statistical forecasts available, however most industry officials agree that during the next few years the increase in demand for equities as a result of the aforesaid amendments probably will not exceed $10 million per annum. Initially, increases of $2 - $4 million per annum are expected.

Trust Companies

207. We support the recommendation made to your Commission by the Trust Companies Association of Canada that the Trustee Acts of the various provinces should be amended to permit trustees acting under appointments limiting investments to those authorized under provincial law to invest in equities which meet the qualitative tests of the Canadian and British Insurance Companies Act. We further agree that legislation governing the investment of guaranteed funds held by Trust Companies should be liberalized.

208. It is not in the interests of the beneficiaries of trusts subject to provincial Trustee Acts that common stocks should be barred from the trust fund thereby depriving such beneficiaries of any inflationary hedge whatsoever.

209. It is not expected that the liberalization of these enactments will result in a substantially increased demand for Canadian common stocks. The amounts involved in trusts of this type are not large, and most of the

trusts were constituted many years ago. Perhaps not more than $1 - $2 million per annum in additional equity purchases will result at most. However, it is urged that archaic laws which treat equity investment with a concern almost amounting to hostility have done much to engender suspicion toward Canadian stocks on the part of the general public and even the institutional buyers.

B-3 Taxation

Personal Income Tax

210. As we have established in our analysis of the individual public segment of equity markets, the share-owning Canadian is a member of a very small high income elite. It follows that, from the standpoint of the flow of equity capital from private investors to business, the investment decisions of individuals in the upper income and wealth classes are of overwhelming importance. Our analysis indicates that these are:

a) the group in the population which has the capacity to invest in business equities in large amounts, and

b) the group which is disposed to do so.

211. Changes in the tax structure over the past 20-25 years have substantially reduced the capacity of upper bracket individuals to accumulate new investable funds; however, their remaining capacity is still very large - much larger according to our findings than is popularly supposed.

212. The effects of taxes upon the investment policies of individuals have not been studied in Canada. In general we believe that taxation here has had the two-

fold effect of reducing the incentive of individuals to invest and of curtailing their capacity to do so. In the U.S.A. extensive research has taken place in this area and the results have indicated that the influence of taxation upon investment decisions varies from income group to income group. One study revealed that less than a quarter of the individuals with incomes of under $5,000 were influenced in their investment decisions by tax considerations, as compared with over 90 per cent of the individuals with incomes of $100,000 and over. Over 50 per cent of investors earning between $8,000 - $10,000 per annum were influenced by taxation and nearly four out of five equity buyers moved into more venturesome investment positions because of taxes. (Effects of Taxation Investment by Individuals - J.K. Butters, L.E. Thompson, L. Bollinger - Division of Reaearch - Graduate School of Business, Harvard University, 1953). The effects of the U.S. capital gains tax are thus underscored.

213. The absence of a market for preferred shares in Great Birtain is generally attributed to the favourable tax treatment afforded common stock dividends and the lack of similar credits for preferred dividends in that country.

214. It would be possible, of course, to devise a series of loss off-sets which would constitute a strong investment stimulus. This is currently being attempted in Australia. If unrestricted deductibility of all investment losses were applicable against taxable income, the resultant subsidy to risky investments would have a

pronounced effect in the demand for these equities. However, without a capital gains tax the cost in terms of the equity of the tax structure would be great, and we are of the firm opinion that a Canadian capital gains tax would be a deterrent to increased investment flows.

215. The moderate and evolutionary progress of recent years manifested by our economy is far from adequate to meet the needs of an expanding population. Immediate action is required to encourage a more free system of enterprise by stimulating competition among financial institutions and removal of restraints on the flow of savings and investments under proper safeguards, thereby enabling a faster response to market conditions. Our tax structure is clearly in need of examination in the context of the Canadian economy rather than a revision based upon imitation of practices elsewhere and political expediency.

216. Ideally our tax structure should encourage greater participation by Canadians in equity securities and more foreign participation in debt financing. It is suggested that the dividend tax credit should be increased from the present twenty per cent. We doubt that a sliding scale of tax credit for dividends based upon income (whereby the dividend credit decreases as taxable income increases) would have the effect of increasing the percentage of individual shareholding groups as is sometimes suggested. The studies cited above indicate that the low income groups are not especially influenced in their equity purchases by tax considerations.

Corporation Income Tax

217. There have been urgent and important public discussions and analyses by taxation experts with respect to the need for a complete revision of our corporate tax structure. We do not intend to explore these subjects for the purposes of this submission since your Commission has already received a wealth of information in this regard. We do concur that the double taxation of corporate profits is inequitable and that an exhaustive study should be commenced forthwith. This would enable lawyers, accountants, economists and the business community to illuminate the defects in present legislation and submit recommendations leading to an expeditious revision thereof. It is to be deplored that an increasingly heavy burden of taxation is destroying the incentives of the creative segment of our population. At the same time the complexities of a maze of intricate legislation drains off professional and business talent that would be more usefully employed in activities that are productive in terms of economic values.

218. In the past our tax structure has even favoured the foreign investor over Canadians in certain industries (notably the oil industry), thereby placing the Canadian enterprise at a competitive disadvantage. The cost in terms of Canada's economic future is immeasurable.

219. We approve of the recent amendments to the income tax act requiring Canadian registered pension plans and Canadian investment companies to derive 90 per cent of their income from Canadian securities as the price of receiving favoured tax treatment. We are

concerned that comments in a recent budget speech might presage interference with the latitude of decisions enjoyed by the managers of Trusteed pension plans in the acquisition of Canadian equities. The mutual funds and the pension trusts, as previously pointed out herein, have demonstrated a remarkable growth capacity and broadened the demand for Canadian equities to a substantial degree. This is a most desirable trend.

220. Dividends paid by a wholly-owned Canadian corporation to its non-resident parent formerly qualified for a low tax rate of five per cent. Further, if the non-resident parent company was a U.S. company it only needed to own 51 per cent or more of the stock of the Canadian company in order to qualify for the five per cent rate. This rate was increased in 1961 from five per cent to 15 per cent, in respect of any dividends paid after December 20, 1960. Similarly, interest paid by a Canadian corporation to independent non-resident lenders formerly was exempt from Canadian tax in specified circumstances. This exemption was also withdrawn with respect to bonds issued after December 20, 1960. There would seem to be a general feeling that, apart from penalizing foreign owners of Canadian subsidiary corporations, the interaction of the various forces will cause the economic consequence of this policy to find its own level. That is to say, in time it will probably cost Canadians more to borrow abroad so that interest rates will increase in order to offset the decrease in net return to the foreign lender. In addition, it might just be that prices of goods

manufactured by Canadian subsidiaries will increase in order to offset the decrease in net return to the foreign parent. These considerations are, of course, pure speculation, but they should not be overlooked when considering the effects of these changes.

221. By and large, the elimination of the reduced rate of non-resident tax on dividends has affected parent companies only, and the elimination of the exemption with respect to interest has seriously affected only those lenders in foreign countries who pay little or no tax to the foreign country. Where these conditions are not met, it is generally assumed that what goes into the Canadian treasury comes from the treasury of the foreign country through the operation of foreign tax credits. With respect to parent companies in the United States and countries not having a Tax Convention with Canada, the increase in the non-resident tax is absorbed directly by the parent company. This arises out of the fact that dividends received from foreign subsidiaries are fully taxable in such countries although a tax credit for foreign taxes is allowed in the case of the U.S. As this credit embraces the income tax payable by the Canadian corporation itself, no U.S. tax is generally exigible on such dividends. Assuming a complete distribution of all Canadian profits, the taxes payable to Canada formerly amounted to approximately 52½ per cent of the Canadian profits (50 per cent plus five per cent of the profits after taxes). As the U.S. corporate income tax rates approximate 52 per cent, no additional tax arose in that country. The increase in the non-

resident tax from 5 per cent to 15 per cent simply meant that the parent companies had to absorb the additional tax themselves, since, with the 5 per cent rate, the foreign tax credit limitation had already been reached.

222. Foreign reaction has been unfavourable and under the pressure of the added tax burden foreign investors have reduced their investment flow into this country, and devised intricate means of withdrawing funds without the payment of any tax at all in some cases. We recommend the immediate repeal of these amendments and a return to the law as it was before December 20, 1960.

Federal Estate Tax and Succession Duties

223. In our view, the Federal Estate Tax and Provincial Succession Duties Acts do have some effect on the mobility of capital. This effect is the result of:

a) the fact that only Ontario and Quebec mong the ten provinces levy succession duties;

b) the formulae for determining situs of shares for estate tax and succession duty purposes differ.

224. For federal purposes, securities forming part of an estate are domiciled in the province where the deceased resided if there is a transfer agent in the province. If there is no transfer agent in the province, the shares are domiciled in the nearest province in which there is a transfer agent. For provincial purposes, the situs of shares is determined generally by

a decision as to where the securities can be dealt with effectively. If the issuer has a transfer agent in the province where the deceased resided, then that province would be the situs. If the issuer has no transfer office in the province of residence, then other factors would be taken into consideration but the chief factor would be the place in which the shares were actually dealt with.

225. The Federal Estate Tax Act allows a 50 per cent tax credit on assets located in the provinces of Ontario and Quebec. Situations do arise where the tax credit is available for federal purposes when a lesser amount or no succession duty is payable due to the difference in the situs formula. The opposite situation also arises whereupon succession duties are paid to Ontario and Quebec but no federal tax credit is available.

226. Obviously some purchasers of shares will tend to arrange their affairs so that pitfalls are avoided and advantages are secured. A British Columbia investor, or a Maritime investor, is less likely to buy shares of a company with no transfer office in his province especially if the only transfer office is in Ontario or Quebec. A wide range of examples might be developed but it seems fair to conclude that the estate tax and succession duties do affect the location of transfer offices and in that way the mobility of capital.

Security Transfer Tax Act

227. Quebec and Ontario are the only provinces in Canada where a tax is levied on the transfers of shares, bonds, debentures and debenture-stock.

228. Both provincial acts provide that the transfer

tax applies:

a) upon every change of ownership of a security consequent upon the sale, the transfer or the assignment thereof, made in the province or carried into effect in the province.

b) upon every order given in the province, for the sale, transfer or assignment of a security, when such order is to be executed outside of the province.

229. Thus, residents of Quebec who sell securities in Ontario through a broker's office in Quebec are subject to both Quebec and Ontario taxes and the same situation applies to residents of Ontario who dispose of securities in Quebec through the office of a broker in Ontario.

230. The Quebec Security Transfer Tax Act provides that, where a sale of a security is subject to a tax outside the province, as well as a similar tax in the province, the provincial treasurer may make an allowance from the duties payable in the province provided that a reciprocal arrangement can be made with the outside jurisdiction.

231. The same provision is made in the Ontario Transfer Tax Act, but so far we have been unable to effect an arrangement for cancellation of this duplicate tax between the two provinces.

232. In view of the fact that these taxes are such a small percentage of the total revenues of the provinces, and considering the extensive enforcement machinery necessary, we feel that this tax is more or less a

nuisance tax and could well be eliminated.

Stock Exchange Tax - France

233. Although not a factor in the demand for equities, it seems appropriate at this juncture to consider a situation with respect to a tax imposed in France which has had the effect of diverting transactions from our Exchanges to the United States.

234. Under the provisions of the Law of April 4, 1893, purchases and sales of securities are subject to a special tax usually called "Impôt Bourse" which is, in fact, a stamp duty charged on all contracts which Stock Brokers and Banks must make for each transaction executed by them.

235. Irrespective of their origin (domestic or foreign) or of their form (registered or bearer), all listed and unlisted securities except Rentes are subject to this special tax.

236. On cash transactions, the rate of tax on shares is 6 per cent (six per thousand) and on bonds 3 per cent (three per thousand). On the "Marché à Terme", the rates are respectively 3 per cent and 1½ per cent. Tha tax is charged to both the buyer and the seller.

237. However, under the terms of one of several amendments made in June 1956 to the reciprocal tax convention between France and the United States, Stock Brokers and Banks in France are not required to collect the "Impôt Bourse" on purchases and sales of securities or commodities made in the United States. This particular amendment is known as Article 13A and the following is a free translation of its text as published

in the Journal Officiel de la République Francaise of February 14, 1958:

"ARTICLE 13A

238. The transactions having as an object the purchase, sale or exchange of shares, bonds and other securities or of commodities, for which orders are given in one of the contracting States for execution on a Stock or Commodity Exchange of the other contracting State, are exempt in the first State from stamp duty or from all similar duties to which such transactions would normally be subject".

239. Since this amendment came into force in 1958, an ever growing number of Banks and Stock Brokers in France have had their orders to interlisted Canadian securities executed in the United States in order to save their clients this "Impôt Bourse". This has resulted in a considerable loss of business for Canadian Stock Brokers and a corresponding loss of volume for Canadian Stock Exchanges.

240. In order to remedy this situation, a similar amendment would have to be made to the reciprocal tax convention between Canada and France.

Miscellaneous Matters

Disclosure Acts

241. It has been frequently urged by Chartered Accountants, Security Analysts, and other persons concerned with gaining insight into corporate operations, that the public should have access to financial information adequate to permit complete analysis and comparison of these entities. Consequently, we have carefully

considered The Corporations and Labour Unions Returns Act in order to ascertain its implications in this regard.

242. Essentially we approve of the legislation as an important milestone in the progress of disclosure legislation. However, we recommend that the Act should be amended to permit public access to the financial returns required as "Section B" information in the Act. It is our hope that regulations promulgated under the Act with respect to the form of financial statements, will require these to be full and complete and in accordance with the requirements of sound accounting and analytical practices.

243. The intensified flow of corporate information that would result from the foregoing will create greater investor confidence which will, in turn, tend to improve the demand for equities over the long term.

PART IV

TRADING PATTERNS

A. General

244. The first transaction study ever conducted by the Montreal and Canadian Stock Exchanges took place in June of 1962. The purpose of the study was to determine, during a representative period, the investor composition of the daily trading volume handled by the Exchanges. Members were requested to record all of their transactions during the 4th, 15th and 27th of June on specially designed I.B.M. cards which were subsequently processed electronically and tabulated for analysis. An extremely high participation followed and, as a result of the cooperation of all concerned, we are confident that the statistics provided herein are fully representative of the transactions which occurred during the period under review. The data have been organized in tabular form as Appendix IX.

245. The significance of a study of this kind is fully apparent only after several years when a series may be developed and a trend analysis becomes possible. Random fluctuations may be eliminated only after such a series has been accumulated and we are uncertain as to what distorting effect the severe market gyrations of May might have had upon the results of our survey. Therefore, for Canadian purposes, our present statistics are significant only for purposes of comparison with U.S. data, and as a record of trading patterns for June of 1962 on the Montreal and Canadian Stock Exchanges.

246. On September 13, 1961, the New York Stock

Exchange recorded its eleventh Public Transaction Study, the results of which appear as Appendix X to this submission. The preamble to the analysis of this study observes that it was conducted at a time when "national concern ran high over the Berlin crisis and the Soviet Union's resumption of nuclear bomb testing. Significantly, the study indicates that international tensions produced no unusual effects on trading at the Exchange". Although nearly a year has elapsed since this study was made, we suggest that the order of magnitude represented by the relationships involved might usefully be compared with our own results.

B. Major Sources of Share Volume

247. Our survey revealed that the share volume represented by individuals was markedly larger than that represented by institutions (Appendix IX, Exhibit "A"). Table 11 compares the sources of volume on a percentage basis for both Canada and the United States. The divergent relationships are striking in two divisions.

Table 11

Share Volume as a Percentage of Total Volume,
Montreal and Canadian Stock Exchanges - June, 1962.

Public Individuals	Institutions and Intermediaries	Exchange Members and Others
50.4%	19.8%	29.8%
New York Stock Exchange - September 13, 1961		
51.4%	26.2%	22.4%

248. The substantial percentage of total transactions represented by Exchange members and the small percentage credited to institutions is a departure from the

relationships noted in the U.S. results. The transactions for public individuals in both countries are almost identical on a percentage basis. The percentage attributable to members and unknown traders is higher than that ever attained in the U.S.A. This is almost certainly the result of the substantial number of these transactions attributable to arbitraging practices on our Exchanges.

249. Exhibit "E" of our survey analyzes the components of the institutional investing group. The relatively low percentage of 2.4 per cent for Insurance Companies was expected but only 5.7 per cent for Mutual Funds was contrary to expectations. Corporate individuals are included under the heading "Others" in Exhibit "E" together with private pension trusts and miscellaneous non-individual units. The public sector after heavy May selling may have reacted to acquire shares at bargain prices. In any event it did not lack the confidence to return to the market, and hence the large volume produced by that group.

250. The need for additional surveys of this kind is vividly underscored by these comparisons.

251. Exhibit "A" of Appendix X reveals dramatic evidence of the growth on a percentage basis of institutional business in the U.S.A. compared to the volume of transactions entered into by public individuals. This contrasts with the Canadian relationships.

C. Public Individuals' Share Volume by Investment Motivation

252. It is a matter of some difficulty for a member

to determine the investment motivation which prompts an investor to buy or sell shares. In those cases where the shares have been held for an individual by a broker in a customer's account the duration of the investment may have been the reverse of what subsequent transactions would imply. The problem is compounded when an investor simply places a "buy" order and departs with his shares, or deposits shares for immediate sale. Thus, our Exhibit "D" of Appendix IX necessarily contains a high percentage of unknowns. We have therefore prepared Table 12 on the basis of known motivation.

Table 12

Motivation of Public Individuals' Share Volume

Montreal and Canadian Stock Exchanges - June, 1962.

Long Term Investment (Over 6 months)	Short Term Investments (1 to 6 months)	Trading (Under 30 days)
35.2%	35.7%	29.1%
New York Stock Exchanges - September 13, 1961		
62.0%	28.5%	9.5%

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253. Exhibit "B" of Appendix X disclosed that the U.S. relationships from a motivation viewpoint have fluctuated to a slight degree, and never have relationships approaching those discovered by our survey occurred in the U.S. data during the past eleven years. Although the stock market has never declined so dramatically during the past eleven years as it did last May, we are inclined

to discount the influence of this factor from a motivation viewpoint.

254. Perhaps the most palatable solution for the riddle of the emphasis on short term and trading transactions in Canada would relate to the absence of a "Capital Gains" tax here. The U.S. investor is always conscious of the vastly greater tax imposed upon market profits resulting from sales of securities within six months of purchase. One is reluctant to accept the other possible answer since it must advance the theory that Canadian public individuals are largely short term speculators, whereas the innate tendency of Americans is to invest for the "long pull".

255. It must not escape notice that the assessment of motivation requires a good deal of subjective reasoning on the part of the broker for the purposes of both of these studies.

D. Public Individuals' Share Volume by Income Group

256. The Montreal and Canadian Stock Exchanges survey does not include an analysis of the public individuals' transactions on the basis of the personal income received by the investor. It was doubted that the information available to us would be adequate for even the most general assumptions.

257. The New York Stock Exchange has, however, attempted to analyze the public individual segment by broad income categories. The results appear in Appendix X as Exhibit "C". These compare most favourably with the conclusions reached in section 2 of this submission with respect to shareholder's income as a factor in stock

ownership.

258. The New York Stock Exchange results indicate that the preponderance of public individuals' share volume came from persons with annual family incomes of $10,000 and over -- almost 78 per cent.

259. Investors with annual family incomes of $10,000 to $25,000 accounted for 41.9 per cent of the public individuals' share in September 1961 study. This was a new high in the eleven years during which the New York Stock Exchange has conducted these surveys. This figure plus the 35.9 per cent accounted for in the over $25,000 bracket shows that these two income groups accounted for nearly four out of five shares bought or sold by Public Individuals.

E. Public Individuals' Share Volume by Sex.

260. The analysis of this element in our survey takes place in Exhibit "B" of Appendix IX. The New York Stock Exchange results are recorded as Exhibit "D" of Appendix X. Our study is somewhat more comprehensive in that it compares the relationship between male and female at varying ages. The far larger percentage represented by females at the very young ages is significant. The joint account category is negligible and it appears that after marriage most of the families' share transactions go through the husband's name.

261. The results show the Canadian total relationship to be 82.5 per cent male and 15.9 per cent female. The U.S. produce a much higher percentage of female investors - 28.3 per cent with the males still predominating with 71.7 per cent.

262. The influence of the Quebec Civil Code in our trading region no doubt plays an important part in the reduced female percentage. However, sociological studies continually reveal that the U.S. woman enjoys a greater independence than her Canadian counterpart in many area.

F. Public Individuals' Share Volume by Age

263. Our Exhibit "B" is also intended to segregate shareownership into categories based upon age. This Exhibit, and New York Stock Exchange Exhibit "E", are summarized and compared in Table 13.

Table 13

Public Individuals' Share Volume by Age
Montreal and Canadian Stock Exchanges - June 1962

Under Age 25	Age 25 - 44	Age 45 - 64	Age 65 and Over
1.2%	42.8%	50.2%	5.8%
New York Stock Exchange - September 13, 1961			
1.4%	29.4%	54.4%	14.8%

264. The percentage of Canadians in the 25 - 44 age bracket dealing in shares in the trading area of our Exchanges was notably higher than the similar group in the U.S.A. However, the 65 and over group did not trade to the same extent as the group surveyed in the U.S.A. The other two groups are represented by similar percentages in either country. In both countries investors over 45 accounted for the largest percentage of Public Individuals' Share Volume.

G. Margin Volume of Public Individuals Compared with Total Volume.

265. Margin transactions as percentage of total Share Volume may be derived from Exhibit "C" of our survey and Exhibit "F" of the New York Stock Exchange Study.

266. In the U.S.A. 16.3 per cent of the transactions were on margin, the lowest for any date since the original study in September 1952. Our survey showed that 20 per cent of the volume of public individuals surveyed were on margin. The larger figure may be accounted for by the more generous margin requirements prevailing here as compared with the American regulations in force during September of 1961. The recent relaxing of margin requirements in the U.S.A. will probably alter this relationship.

267. Exhibit "C" of Appendix IX also compares margin transactions as a percentage of the known transactions categorized by age groups. The comparatively higher percentages for the older groups perhaps reflect the confidence arising from larger incomes, although this would not be true in the case of the 25 - 34 age group where a speculative factor may be present.

H. Conclusions

268. It is far too early to attempt to draw final conclusions with respect to variations between trading patterns occurring on our Exchanges and those reflecting the volume of transactions recorded by the New York Stock Exchange.

269. At this stage we are intrigued by variations in the motivation and margin patterns, since these

resemble what one would expect because of differences in the laws of both countries at the time the surveys were conducted. Nevertheless the trading segment represented by short term traders in Canada was uncomfortably large. Perhaps present economic uncertainties might account for this, and our next survey may reveal a larger "investing" group of public individuals.

SUMMARY

270. While admitting that the available statistics lack the precision and the scope that would be achieved through a comprehensive survey specifically designed to study the individual Canadian shareholder, nevertheless it is submitted that the data we have reviewed is adequate to justify certain generalizations.

271. It is clear, regardless of what the exact percentage may be, that the shareowning segment of the public is extremely small indeed. This is equally true for both Canada and the U.S.A. although it appears that, as a percentage of income earning units, the shareowning base may be slightly larger in Canada.

272. Although many factors influence the individual's propensity to acquire publicly traded shares, in the final analysis his income level through its influence upon his need for liquidity and his net worth is the most decisive of all. There are patterns of ownership discernable when viewed from the characteristics of age, education and occupation, but even these are entwined with the income factor.

273. The Quebec investor does not appear to be more conservative in his portfolio allocation than does his

Ontario counterpart, however, there is a much smaller shareownership in Quebec at different levels of personal income than exists in the rest of Canada.

274. There is very little difference between the investing public in the United States and Canada. Allegations of undue conservatism against the public investor in Canada seem to be unsupported by the available evidence. The income level in the U.S.A. and the net worth of individuals as a percentage of total population range higher than in Canada. The U.S.A. market is obviously larger and more easily serviced. However, when each segment of the investing public is compared, the U.S. and Canadian groupings do not demonstrate any notable divergence.

275. Although a trend analysis has not been attempted for Canada, probably such a study would have produced results similar to those contained in the New York Stock Exchange Survey of Shareholders (Appendix VII).

276. The greatest problem with respect to the individual public shareholder is that of encouraging greater participation by the $5,000 - $7,000 income group in the stock market. Thus far, mutual funds have appeared to be the most effective method of diverting the personal savings of this group into equities.

277. Recognizing this need, the Montreal Stock Exchange instituted a Monthly Payment Plan whereby investors may purchase stocks listed only on the Montreal Stock Exchange up to a total maximum of $1,000 on a basis of 20 per cent down and the balance in eight monthly installments. Since the inception of this Plan

in April 1961 indications are that it has not been widely accepted by the investing public. This is due, in some degree, to the unwillingness of many of the member firms to encourage this type of equity purchase by their clients because of the additional record keeping involved and small remuneration derived therefrom.

278. The equity ownership of the life insurance industry is relatively small when contrasted with the position occupied by the Trust Companies and Mutual Funds. This is due in part to statutory restrictions, investment policy of the various companies, and actuarial necessity. It is hoped that recent changes in the Canadian and British Insurance Companies Act will encourage insurance companies to expand their activities in the equity market.

279. The various provincial trustee acts should be liberalized with respect to the qualitative requirements of equity investments. This would enable Trust Companies to invest larger percentages of certain trust funds in equities.

280. The tax structure of Canada requires immediate and serious study in order to develop incentives and produce monetary encouragement for those segments of the population best equipped to expand the economy. Canadian industry should receive treatment at least as favourable as that accorded to foreign interests. This has not always been true in the past. However, emphasis should be placed upon devising fiscal means of encouraging greater Canadian participation in equity ownership rather than the negative approach that seeks to impose

onerous taxation upon foreign investors.

281. Concern with regard to the size of foreign investment in Canada is, of course, fully justified. As at 1960 it totalled approximately $22,325,000,000. The preponderance of this investment is in equities, and a very large percentage of the equities were issued by wholly owned subsidiaries.

282. A more substantial position for the institutional segment is urgently required because of the ultimate market stability to which professional management should contribute. This segment of future surveys will be scrutinized with great care.

PART V

FACTORS INFLUENCING THE SUPPLY OF EQUITIES

A. The Influence of Security Sales Regulations

283. Only the most unrepentant reactionary would, in today's context, vote for the repeal of those enactments and regulations which seek to protect the public from exploitation by unscrupulous promoters and itinerant underwriters. Even these laws and the administrative boards established for enforcement purposes have been unable to prevent certain massive swindles and manipulations which have shocked the investment community from time-to-time in recent years. One can only speculate with horror as to what would have transpired in this age of mass media advertising and high speed electronic communications were it not for the existence of the various Securities Acts and the largely dedicated efforts of the officials charged with the administration thereof.

284. On the other hand, it is often urged that the scope and variety of the legislation which has developed in Canada is neither adequate to protect the public nor in the best interests of Canadian industrial financing. From a humble beginning in 1912 when Manitoba enacted its Sale of Shares Act until today when a network of approximately 25 enactments, Federal and Provincial, govern the sale of securities in this country, we have witnessed a patchwork quilt of laws grow up, not uninfluenced by the Securities and Exchange Act of the United States. The impact which these laws have had upon corporate finance in Canada is not capable of

quantitative analysis. The available empirical informatio is so limited as to make it difficult or impossible to draw even tentative generalizations relating to values reaching the market either because of or in spite of these laws. We can, however, on the basis of the experience of underwriters and financial management of our larger corporations, make certain observations with respect to what changes may be made in the common interest of public protection and industrial expansion through security offerings. For the most part the requirements of Provincial Companies' Acts are significant for purposes of disclosure only, and we shall therefore limit our observations to the Provincial Securities Acts and the Dominion Companies Act.

285. Essentially three major impediments to public financing are raised by the existence of the various Securities Acts.

These are:

a) The danger that disclosure may involve the publication of information that will aid the security issuer's competition. Related to this is the cost and difficulty involved in obtaining the detailed information required.

b) Refusal or procrastination by public officials responsible for granting registration.

c) Expense.

286. If a security issuer regards any of the above as a serious deterrent, the alternatives in most

jurisdictions are an offering of rights to existing shareholders which are exempt from registration if not underwritten, or an offering to "exempt" institutions. On the evidence that, although most common stock offerings are by way of rights, these are nearly always underwritten, we come to the conclusion that the large corporations at least do not find these laws to be a serious barrier to public financing. This may not always hold true in the case of smaller corporations.

1. The Implications of Disclosure

287. Arguments are frequently advanced against the type of disclosure required by modern securities acts which result in prospectuses ranging up to forty pages or more in length. The most common objection seems to be that the average investor is not equipped by knowledge or experience to understand or evaluate the information he receives. This line of argument concludes with the allegation that the expenditure of time, money, and effort involved in preparing the information and presenting it to investors constitutes economic waste.

288. In our opinion it does not follow that, because the average investor cannot analyze a prospectus, it is devoid of value. A multitude of highly qualified agencies are available to perform that function for him. These include investment dealers, investment counsel, banking and trust institutions, brokers and financial publications. The mass of investors can and do rely upon the judgment of professionals in making their investments although this reliance may not always be direct.

289. It is also argued that disclosure menaces the competitive position of the security issuer in that revelations in prospectuses may be of value to rival organizations. This contention is of questionable validity. The information disclosed in Canadian prospectuses is of a legal and financial nature but hardly adequate to enable competition to assess the internal management and marketing secrets of most corporations. The exception, again, may arise in the case of smaller organizations. Frequently corporations welcome the opportunity to inform the public, in a formal, legal document of the financial strength of the organization, the stature of its management and the scope of its operations.

290. Certain problems do arise in the requirement of the Dominion Companies Act, and many Provincial Securities Acts under which the audited financial statements accompanying the prospectus must not ante-date the application for registration by more than 120 days. While it is true that this provision may be waived, the conditions of such waiver are never known in advance. Thus for larger corporations where audit is expensive and protracted, the ideal time to seek public funds would be the end of April or May, assuming that the company's fiscal year corresponds with its calendar year. However, this may not correspond with the best timing with respect to market conditions or the corporation's need for funds. The Securities Acts and Dominion Companies Act have made little impact if any upon the accounting profession as to the form and extent of corporate

financial statements. The reverse is true in the United States where the Securities and Exchange Commission has had a profound effect in that area.

291. In summary we suggest that the disclosure requirement does not constitute an obstacle of serious proportions to companies seeking public funds in Canada. There is a need for greater uniformity among the various jurisdictions throughout the country. Uniformity has much to commend it in other legislative matters, and we therefore propose to treat this subject separately in a succeeding paragraph.

2. The Implications of Administration Discretion

292. Complaints are frequently voiced to the effect thatpotential security issuers either are denied access to the public market, or suffer costly delays in reaching it as a result of the action or inaction of administrative officials.

293. It is unfortunate that the right of appeal from decisions of Canadian Securities Commissions is virtually non-existent except for the Province of Ontario and Saskatchewan, and to some extent New Brunswick. The Ontario and Saskatchewan Securities Acts provide specifically for an appeal to the courts from all decisions of the Commission. In these cases the Commission is still the fact-finding body, however, and the court will examine only questions of law. The acts of Alberta and Quebec explicitly deny an appeal from a decision of the Commission. The British Columbia Act permits an appeal to the Attorney General in certain cases but no subsequent appeal is allowed. Other provincial acts in the

main are silent as to rights of appeal except for Newfoundland, Nova Scotia and Prince Edward Island where decisions effecting the registration of traders are explicitly not subject to appeal.

294. No doubt concern over this matter is increased as a result of the broad discretionay and investigatory powers vested in administrators or attorneys general by the various securities acts. It is not our purpose to explore exhaustively such legal matters as natural justice, self incrimination, or civil rights in the present context. However, any abuse of these principles under our security sales laws must inevitably cause potential security issuers to hesitate before seeking public funds. Certainly organizations of repute and substance will not willingly subject themselves to the capricious act of administrative officials with the power to attack assets and terminate business operations without review by a court of law.

295. Of more immediate concern to financial management is the problem raised by administrative delay encountered by corporations seeking to qualify their securities for sale to the public. The time involved varies depending upon the jurisdiction in which registration is sought, the stature of the company, and the complexity of the offering. Assuming that the documentation is complete, in normal circumstances, a security issuer may expect to wait from two weeks to a month for registration in Quebec or Ontario. A similar qualification under the Securities Exchange Act of the United States may be expected to require a period of 40 -

60 days. It must be noted, however, that the foregoing assumes the most favourable conditions. The more extensive documentation required by the American authorities requires decidedly more time and effort prior to filing the application. A multiple registration can be very time consuming as a result of differing requirements in the various provinces.

3. The Implications of Cost

296. The cost of marketing a Canadian security issue at the present time is not a function of size but costs do vary depending upon wehther the issuing company has previously established its securities in the market place and the technical complications involved. The cost of preparing and qualifying an issue of senior securities is generally more expensive than an equity issue of similar size because of the legal expenses attending the lengthy indentures of trust and other documentation. Depending upon the nature of the issue, legal costs may fall in the range of $5,000 - $30,000. The total costs involved in floating a nation-wide issue range between $15,000 - $50,000 with the majority costing between $25,000 and $30.000.

297. The cost of qualifying a Canadian issue for sale in the United States is illustrated in Appendix XI hereof. In general the main difficulties encountered under the U.S. laws are those arising as a result of more extensive disclosure, restrictions upon treasury options, and continual reporting. However, it might be pointed out that, as Appendix XI suggests, cost alone is not a major factor in the decision of whether or not

to market a security issue in the U.S.A.

298. Theinfluence of costs is great where the security issue does not exceed a total offering of $1,000,000. In the case of larger issues the consideration of costs is of diminishing concern.

Recommendations

299. Canadian underwritings will be immeasurably facilitated and public costs reduced if complete uniformity and reciprocity can be achieved under our existing laws relating to the sale of securities. It is obviously onerous in the extreme to require a Canadian issuer to comply with ten different securities acts and up to fifteen other laws relating to public offerings of securities, prior to gaining access to our national market. This market, it should be emphasized, barely exceeds that of the State of California in size and is serviced at a far greater cost because of extensive dispersion.

300. Regional impediments which have the effect of narrowing the national market serve no useful purpose whatsoever. The Canadian investment industry has sustained substantial damage to its prestige both at home and abroad as a result of the activities of unscrupulous promoters who change their base of operations from province to province with seeming impunity. It is impossible to measure the economic loss assessable against these persons but it has certainly reached into the hundreds of million of dollars. The legitimate Canadian enterprise seeking public funds is therefore confronted with a disillusioned public and a formidable legal and

administrative network established to confound malfeasors. However, the skillful, fraudulent promoter designs his "financing" with care to avoid contravention of those sections of the Criminal Code of Canada relating to such offences as false pretences (Section 303), fraud (Section 323), mail fraud (Section 324), false prospectuses and false advertising (Sections 343 and 306), wash sales (Section 325), bucket shops (Section 326) or illegal short sales (Section 327). Action by alert authorities in the past has simply driven the mobile promoters to other provinces where violation of the local statutes are repeated. The ideal solution to this apparent dilemma will be the design of legislative and administrative measures which will be fatal to these illicit operators upon the commission of their first offence, without at the same time creating impediments to legitimate financing.

301. Canadian constitutional law raises many difficulties in this area. The Provincial claim to jurisdiction is, of course, based upon Section 92 of the British North America Act as it relates to "Property and Civil Rights in the Province" and "All Matters of a Merely Local or Private Nature in the Province". Any federal attempt to enter the field of security sales regulation would be based, no doubt, upon those provisions of Section 91 relating to "the Peace, Order and Good Government of Canada" and "The Regulation of Trade and Commerce". It is not our intention to explore the jurisprudence which would either permit or prohibit federal legislation to establish a national securities commission. In our view the benefits offered by such a

body may be largely accomplished within the provincial framework, given a spirit of cooperation and reciprocity, and without the concomitant dangers of centralization. It does not escape notice that some of our provinces have a strong aversion to any attempt on the part of the Federal Government to legislate in this field which has long been regarded as being exclusively in the provincial domain.

302. Unquestionably notable progress has resulted from the recent conferences of the National Association of Securities Administrators. These meetings have established working liaison between the various enforcement groups and the resultant exchange of information has resulted in "death at birth" for many fraudulent adventures.

303. In addition, a determined securities administrator may expeditiously proceed against the person of violators who have fled to other provinces. All of the provincial securities acts provide for the "backing" of a warrant for arrest whereby a warrant issued in one province is endorsed by a magistrate in another giving it validity for arrest in the latter province. In general, administrators will now cancel a registration where the registrant has violated the laws of another province. Given an enlarged area of communication and determined action there is no reason why existing machinery cannot be utilized to virtually extinguish fradulent stock promotion. It is most doubtful whether a centralized enforcement agency could accomplish more.

304. The fundamental and urgent need is for a uniform securities act to be enacted by each of the provinces embodying the concept of reciprocity and streamlined registration procedures. Although a basic similarity is evident, there are still substantial differences among the enactments of various jurisdictions. Such matters as the definition of a security, the meaning of "trading", exemptions from registration, to name just a few, are subject to widely differing treatment under the various acts. To avoid delays and undue expense, registration under a uniform act in any province should ipso facto qualify the security issuer or the broker-dealer in all other jurisdictions subject only to the payment, perhaps, of some common fee for revenue purposes.

305. The disciplinary action of the Exchanges in the case of member firms and listed companies and the punitive sections of the Securities Act of each jurisdiction would combine to create an effective deterrent to wrongdoers, while not impeding the nation-wide financing of legitimate enterprises. All members of an exchange have a vested interest in maintaining public confidence in that exchange. Except for registration, all other sections of a uniform act would apply in each jurisdiction of sale.

306. It is obvious that the relatively small Canadian security market is being further restricted by barriers of our own legislative creation. Anything that can be done to establish uniform regulations on a national basis is obviously going to benefit the

investment industry and the development of Canadian enterprises. In our opinion the establishment of a federal securities commission at this time would not be an appropriate solution.

B. Equity Participation in Foreign Subsidiaries

307. A major recommendation of the Royal Commission on Canada's Economic Prospects suggested that foreign-owned concerns "should sell an appreciable interest in their equity stock to Canadians". In view of this Commission's interest in the same problem, we have initiated three studies and are including the preliminary results in Appendices XII, XIII and Table 14.

308. We do not believe that there will be any appreciable change in the attitude of foreign corporations towards the granting of equity participation to Canadians in their operations in this country. This is particularly true of American firms where the advantages of managerial control and direction outweigh political considerations. For several years, the Montreal Stock Exchange has endeavoured to persuade foreign corporations of the advantages of such a policy with little success. A recent letter to the presidents of 94 of the largest such firms said in part:

309. "From time to time, the Montreal Stock Exchange contacts the parent corporations of firms and subsidiaries operating extensively in Canada in an effort to urge them to consider the desirability of selling some part of the equity of their Canadian subsidiaries to Canadian

citizens and investors. This is a useful method of expanding your own shareholder base and, indeed, broadening the foundation of the private enterprise system.

Canadians are uniquely interested in persuading outside management to adopt such a course since so many of our manufacturing, mining and resource companies are controlled abroad and thus we have a limited number of our own equities in which to invest. Dividend tax concessions made it much more advantageous for us to invest in our own situations.

Would your corporation consider such a proposal? Would there not be definite advantages to your firm from a commercial (public relations), managerial and financial standpoint? I would very much appreciate your frank views about the merits of such a policy from the corporation's point of view. If you are interested, my colleagues and I would be most happy to be of service to you in providing information about our laws, investment institutions, exchange requirements, etc."

310. Results to date are meagre. Only one firm is actually planning to make equity participation available

to Canadians, 30 firms have not replied to letters and 63 are indifferent or have rejcted the proposal outright. In Appendix XII, we have listed representative replies and reasons from a number of companies whose anonymity has been assured.

311. The basic objections to the distribution of a portion of the equity may be summarized as follows:

a) Managerial - an interference with the single global direction of the operations of many subsidiaries.

b) Financial - no impelling need for new funds. Such needs can also be satisfied by the internal flows of the parent corporation or American capital markets where the supply is greater and the cost lower.

c) Conflict of interest - a Canadian minority shareholder group may question pricing policies of inter-corporate transactions. This is particularly true where raw materials are transferred from one country to another for processing.

d) Profitability - many subsidiaries operate at low profit margins or sustain losses for long periods, chargeable to the group profits. As a result, book investment often exceeds substantially the economic value of the enterprise. This reason recurs constantly through

correspondence and is additional evidence of the basic weakness of Canadian industry, -- too many firms in a small domestic market.

Tax laws - our laws favour debt financing since the costs of such capital are deductible from earnings. Consider the following case history: "The Company was incorporated under Federal Charter on December 11, 1951 with an issued capital of $3.00. The capital was subsequently increased in 1954 by the issue of a further 997 common shares of No Par Value at $1.00 per share, and in 1957 by the issue of 720 5 per cent Non-cumulative redeemable preferred shares of $100.00 each, redeemable at $105.00 at the Company's option.

The Company, which was financed in the early years by loans from its parent company, suffered losses amounting to $--- in the two years ended December 31, 1953. Profits were made in each of the years 1954 through 1959, and the audited financial statements as at December 31, 1959 showed an accumulated surplus of $---, after deducting the aforementioned loss, taxes and depreciation."

312. In Table 14, we have submitted a modest preliminary survey of the experience of foreign corporations which have made available equity participation to Canadians. There is much justification to the criticism that Canadians do not retain shares purchased in these subsidiary operations. However, this difficulty is not insoluble. We are convinced that Canadians are becoming more aware of the political importance and economic advantages of owning a greater share of their own industries and that an intensive selling effort, particularly by the Exchanges, will do much to solve this problem.

313. Essentially, the corporation looks upon the problem of expanding the shareholder base in foreign operations as a threat to managerial freedom and independence while the nation, - Canada, Argentina, Japan, etc. - views the matter in political terms, a threat to freedom and sovereignty. In Appendix XIII, we have provided a study of the manner in which selected industrial nations have attempted to deal with the situation.

314. While we have submitted this material for the information of the Commission, it must not be thought that we recommend similar legislation in Canada. Canadian growth and development would not have reached present levels without the financial and technical impetus provided by foreign investment and research. If legislation attempted to force foreign corporations to sell a part of their assets to Canadians, we are convinced that many more problems would be created than

Analysis of Montreal and Canadian Stock Exchange
Survey Results.
Shareownership Transition Following Underwriting in Canada
of Shares Issued by Canadian Subsidiaries of Foreign Corporations.
(Shareholdings in Thousands)

Company Code Number	Year First Under-written or First Date of Record	Class of Share	Shares Acquired by Canadians		Shares Acquired in U.S.A.		Shares Acquired in U.K.		Shares Acquired in Other Countries		Final Tabu-lation Year	Shares Owned in Canada		Shares Owned in U.S.A.		Shares Owned in U.K.		Shares Owned in Other Countries		Change in Percentage of Canadian Holdings		Remarks
			No.	%	No.	%	No.	%	No.	%		No.	%	No.	%	No.	%	No.	%	Increase	Decrease	
2000	1952	Common	920	92.0	80	8.0	--		--		1962	731	73.1	217	21.7	--		52	5.2		-18.9	
2001	1955	Pfd.	96	99.4	.4	0.6	--		--		1961	80	99.0	.5	0.6	.2	0.2	.1	.2		- 0.4	Partial redemption
2002	1959	Common	N/S	65.0	N/S	22.0	N/S	13.0	--		1962	N/S	35.0	N/S	7.0	N/S	58.0	--			-30.0	For. acquisition
2003	1956	Pfd.	N/S	100	--		--		--		1962	N/S	100	--		--		--		NIL		No trend
2004	1960	Class B	N/S	100	--		--		--		1962	N/S	100	--		--		--		NIL		One family control
2005	1961	Common	625	96.2	--		25	3.8	--		1962	546	83.9	--		104	16.1	--			-12.3	50% owned in U.K.
2006	1952	Common	5,624	19.2	23,090	79.1	--		468	1.7	1961	7,112	22.5	23,702	75.0	783	2.5	--		3.3		Interim offerings
2007	1955	Class A	487	94.6	26	5.4	--		--		1962	82	16.8	405	83.2	--		--			-77.8	Partial retirement
2008	1956	Common	N/S		N/S		--		--		1962	N/S		--		--		--		NIL		No trend
2009	1962	Common	N/S								1962									NIL		No trend
2010	1960	Common	1,416	40.6	1,919	55.0	--		151	4.4	1961	1,704	45.4	1,917	51.0	--		136	3.6	4.8		
2011	1955	N/S									1962											No trend
2012	1952	Common	N/S	40.2	N/S	59.8	--		--		1962	N/S	12.5	N/S	87.5	--		--			-27.7	
2013	1960	Common	47	93.2	3	6.8	--		--		1962	48	95.2	2	4.8	--		--		2.0		
2014	1956	Pfd.	N/S	15.0	--		--		N/S	85.0	1962	N/S	7.0	--		--		N/S	93.0		- 8.0	
2015	1956	Pfd.	N/S	67.0	--		--		N/S	33.0	1962	N/S	44.0	--		--		N/S	56.0		-23.0	
2016	1959	Pfd.	N/S	52.0	--		--		N/S	48.0	1962	N/S	23.0	--		--		N/S	77.0		-29.0	
2017	1958	Pfd.	N/S	61.0	--		--		N/S	39.0	1962	N/S	31.0	--		--		N/S	69.0		-30.0	

Percentages represent percentages of outstanding original issue.
N/S -Not stated by Company Surveyed.
Survey made of all listed Corporations known to be controlled abroad.

solved. Further, we do not believe that the necessary information is yet available on the actual operations of subsidiaries in Canada that would permit the drafting of effective legislation. Accordingly, we recommend that, as an initial step to further study of the problem, information filed under Bill C-38 be made public.

C. Trends in Corporate Financing

1. Balance Sheet Analysis (Appendix XIV A)

315. In view of the Commission's interest in the trends of corporate financing, we have compiled two sets of figures covering the financial statistics of 603 corporations for the period 1935-51 and 673 companies for the years 1947-54.

316. These statistics were taken from material published in the Bank of Canada Statistical Summaries and some unpublished data which was also made available. It is unfortunate that the collection of the statistics was discontinued after 1954 as the analysis of trends would have been much more fruitful if carried out to the present.

317. The importance of the 1935-51 series can be gauged by the tabulation of companies as listed in Appendix XIV E. Further, it is useful to note that these 603 companies paid approximately 57 per cent of corporate income taxes, distributed 74 per cent of dividends and earned 56 per cent of corporate profits in 1936. In 1951 the percentages were 40 per cent of corporate income, 42 per cent of corporate taxes and 51 per cent of dividends. The sample covers, therefore, a very significant segment of the Canadian corporate economy for those years. No

similar description is available for the 1947-54 series but it is an equally significant sample.

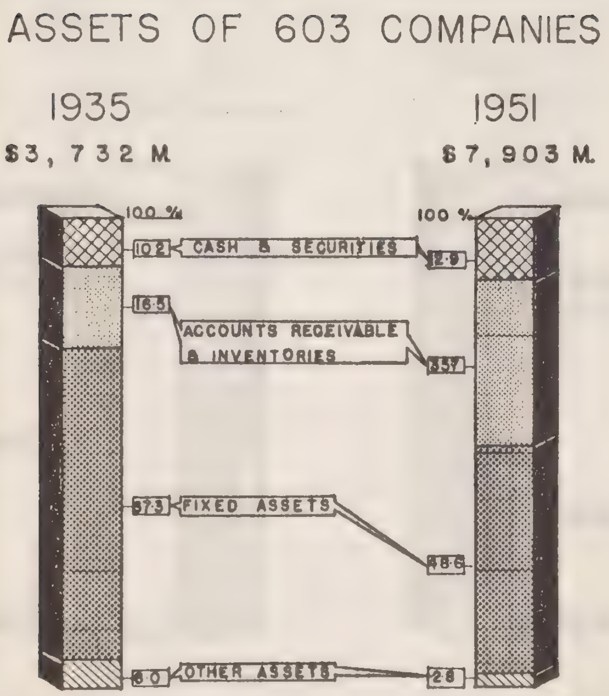
318. Assets of the 603 companies increased from \$3.732 M. in 1935 to \$7.903 M. in 1951. An examination shows that these companies were far more liquid in 1951 than in 1935 when 67.3 per cent of all assets were fixed. In 1951, this percentage had declined to 48.6 per cent and current assets had increased from 26.7 per cent to 48.6 per cent. (See Chart A-I)

319. The full group of companies is broken down into four subgroups as follows:

Group	I	-	34	companies, assets over	\$25 M.
"	II	-	118	" "	\$ 5 M - \$25 M
"	III	-	230	" "	\$ 1 M - \$ 5 M
"	IV	-	221	" "	\$.2 M - \$ 1 M

320. Current assets as a percentage of total assets clearly demonstrates the greater liquidity of small firms and the overall increase in liquidity during the period.

Chart A-I


ASSETS OF 603 COMPANIES
1935
$3,732 M.
1951
$7,903 M.
100 %
100 %
10.2
CASH & SECURITIES
12.9
16.5
ACCOUNTS RECEIVABLE & INVENTORIES
35.7
67.3
FIXED ASSETS
48.6
6.0
OTHER ASSETS
2.8

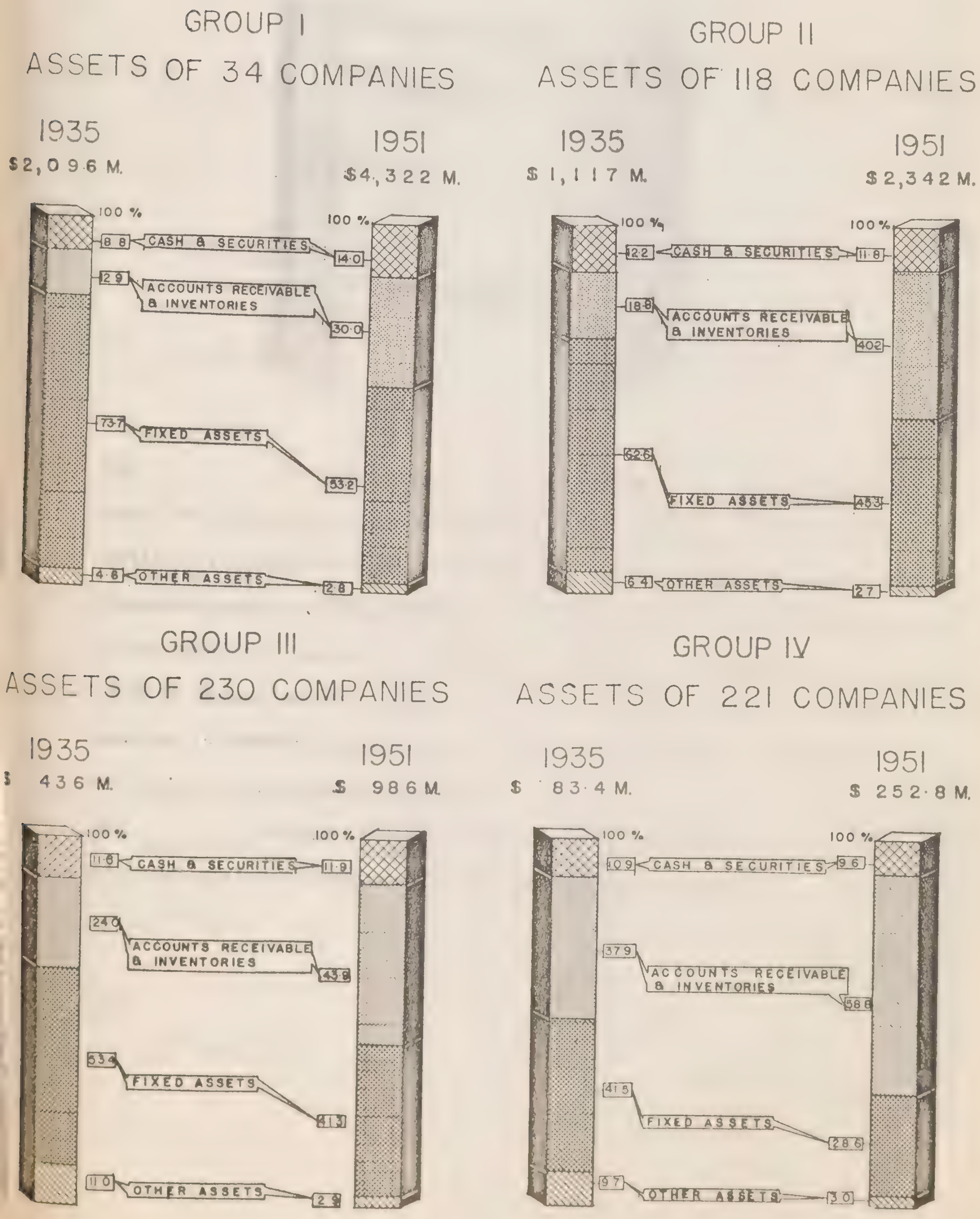
Current Assets/Total Assets

(percentages)

	603 cos.	Group I	Group II	Group III	Group IV
1935	26.7	21.7	31.0	35.6	48.8
1951	48.7	44.0	52.0	55.8	68.4

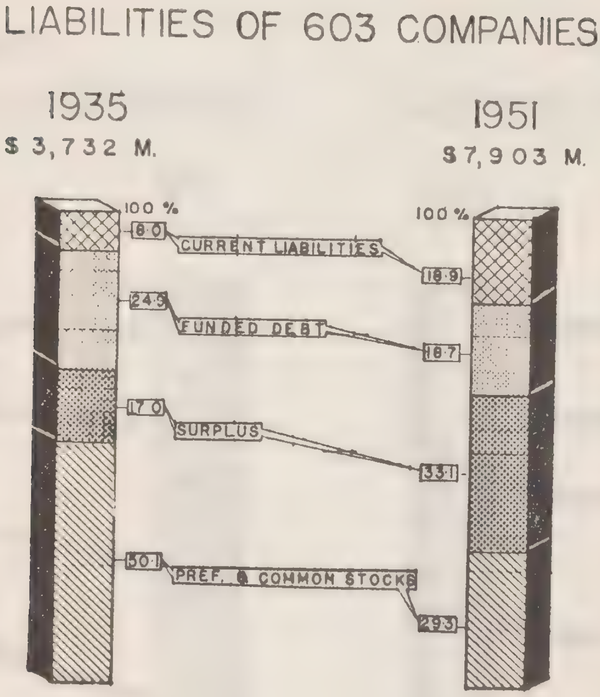
321. The comparison of asset structures of the four groups is illustrated below:

Charts A-II



322. For our purposes, the examination of the structure of liabilities is more informative.

Chart B-I

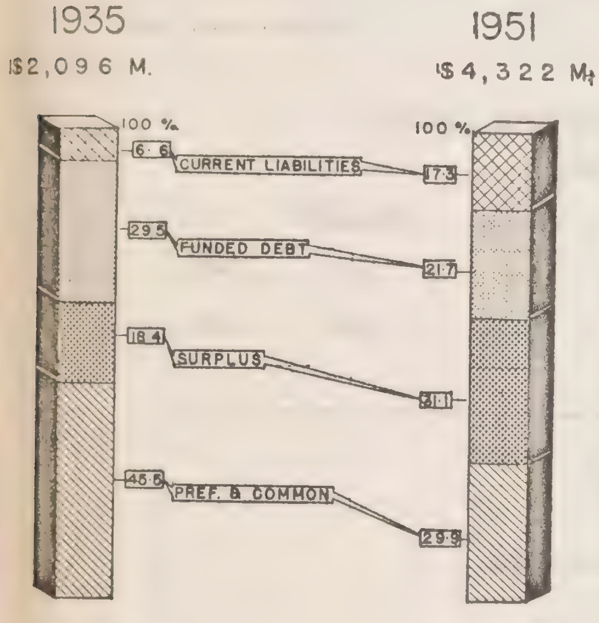


323. The major change in the composition of liabilities is the result of the policy of corporations to keep a large percentage of net profits. In 1935, 50.1% of all liabilities was represented by common and preferred stock; in 1951, 29.3% was contributed directly by shareholders. At the same time, surplus had increased from 17% of all liabilities to 33.1% to become the major source of funds. Since the decision to retain earnings is essentially managerial, statistical evidence is provided of the growth of the managerial economy.

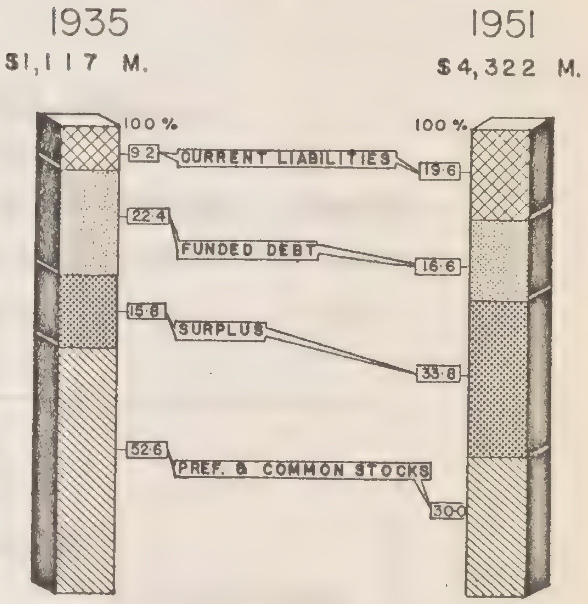
324. A more intensive examination of the structure of liabilities by groups yields interesting comparisons. (See Charts B-II)

Charts B-II

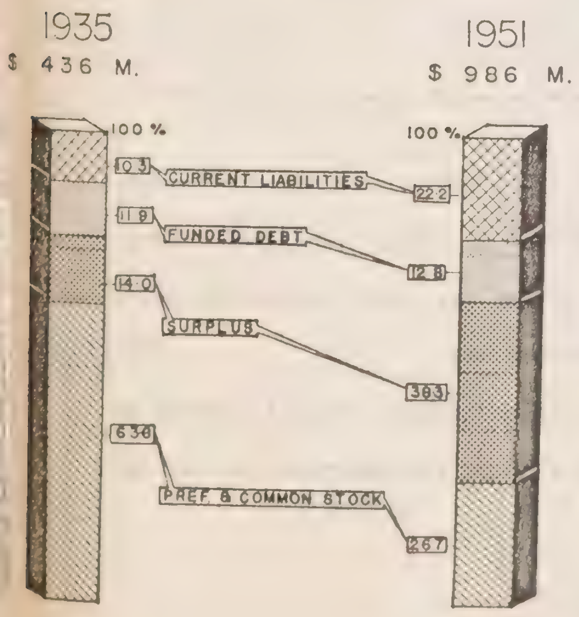
GROUP I
LIABILITIES OF 34 COMPANIES



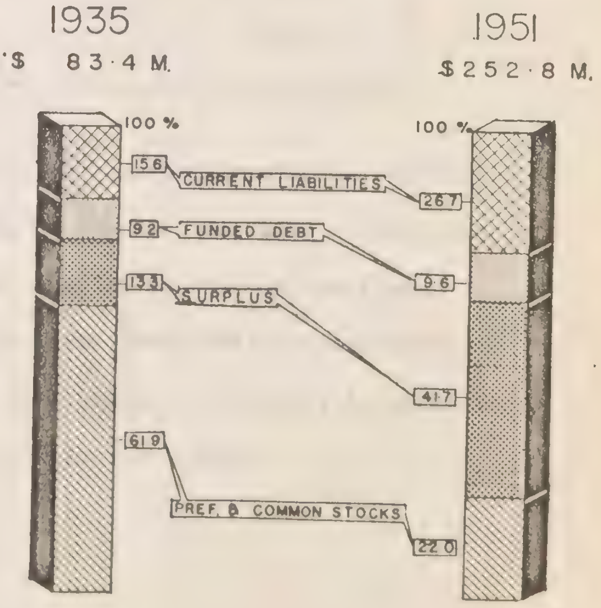
GROUP II
LIABILITIES OF 118 COMPANIES



GROUP III
LIABILITIES OF 230 COMPANIES



GROUP IV
LIABILITIES OF 221 COMPANIES



Surplus/Total Liabilities

(percentages)

	603 cos.	Group I	Group II	Group III	Group IV
1935	17.0	18.4	15.8	14.0	13.3
1951	33.1	31.1	33.8	38.3	41.7

325. Smaller firms rely much more heavily on retained profits as a source of funds. Another major source of funds comes from trade creditors and bank credit.

Current Liabilities/Total Liabilities

(percentages)

	603 cos.	Group I	Group II	Group III	Group IV
1935	8.0	6.6	9.2	10.3	15.6
1951	18.9	17.3	19.6	22.2	26.7

Table 15

Short-Term Financing

	% of Total Assets	
1951	Bank Cr. %	Trade Cr. %
Group I - Assets over $25 M.	1.6	6.7
" II - " $ 5 M. - $25 M.	4.6	8.8
" III - " $ 1 M. - $ 5 M.	7.0	10.0
" IV - " $.2 M. - $ 1 M.	9.5	11.9

326. Table 15 compares the relative importance of bank credit and trade credit as sources of funds for the year 1951. These short term sources of funds are relied on most heavily by the smaller firms.

327. Conversely, funded debt diminishes in importance as a source of funds as the smaller firms have greater difficulty in obtaining access to these markets or have fewer mortgageable assets.

Funded Debt/Total Liabilities
(percentages)

	603 cos.	Group I	Group II	Group III	Group IV
1935	24.9	29.5	22.4	11.9	9.2
1951	18.7	21.7	16.6	12.8	9.6

Preferred Stock/Total Liabilities
(percentages)

	603 cos.	Group I	Group II	Group III	Group IV
1935	13.0	8.6	18.4	19.5	16.4
1951	6.3	5.4	8.0	5.9	6.7

328. Financing via preferred issues is steadily diminishing in importance as the above ratios show. This would appear surprising in view of the fact that equity capital should be built up in a dynamic economy in order to support debt securities. However, the equity cushion is being built up by retained earnings and the lower cost of interest - deductible bonds make debt securities more attractive than preferred stock.

Table 16

Capitalization and Surplus
603 Companies

(millions of dollars)

	1935	(%)	1951	(%)
Funded Debt	928	(27)	1478	(23)
Preferred Stock	484	(14)	495	(8)
Common Stock	1387	(40)	1818	(28)
Surplus	635	(19)	2617	(41)
	3434		6408	

Common Stock/Total Liabilities
(percentages)

	603 cos.	Group I	Group II	Group III	Group IV
1935	37.2	36.9	34.3	44.3	45.4
1951	23.0	24.5	22.0	20.8	15.2

329. The total capitalization and surplus of the 603 companies increased from $3.434 million in 1953 to $6.408 million in 1951.

330. Approximately 18 per cent of this increase came from the net sale of debt securities, less than 1/2 per cent from the sale of preferred stock, 14 per cent from the sale of common shares and an overwhelming 67 per cent from retained earnings.

331. This emphasis on retained earnings as a method of financing is clearly shown in Table 16 where the percentage of capitalization represented by surplus has expanded from 19 per cent to 41 per cent in the two periods. All external financing media, - common stock, preferred stock and debt instruments, - have declined to importance.

332. We must conclude from an examination of these balance sheet statistics that Canadian industry largely finances growth and expansion from their own earnings. (The second series of companies, 1947-54, which we have not analyzed above, reinforces this conclusion).

333. Retained earnings, as a source of funds, do not involve cash costs such as underwriting fees, distribution costs, interest or dividend payments. And, of course, the funds are immediately available.

334. Nevertheless, there may be an opportunity cost to the shareholder if he could invest distributed earnings at a greater return than managmenet can obtain from the undistributed funds. It would be surprising if this were not so since he would have a whole range of industries and companies in which to invest rather

than the same corporation. There is a great responsibility on management, when funds are retained, to make the most effective and economic use of the retained profits.

335. In illustration, we are using Appendix XIV C & D to show the decline in productivity of capital during the years 1948-54. We believe this series to be more useful than the 1935-51 series which encompasses a serious depression and the second World War.

2. Source and Application of Funds Analysis (Appendix XIV B)

336. We can approach our examination of financing policies and problems in another way by examining the source of funds of our 603 companies and the uses to which these funds have been put.

337. The overwhelming preferences of Canadian corporations for financing by retained earnings is again demonstrated. Tax factors, of course, have a great impact -- particularly the double taxation of corporate profits. A firm, in need of equity, could not expect to get back from stockholders the amount of dividends declared since the shareholder would have borne a considerable personal income tax burden. At the same time, he might reasonably be expected to consider other investment opportunities.

338. It is interesting to see confirmed the increasing reliance on retained earnings by smaller firms. During this period, reliance on retained earnings ranged from 56 per cent for the group of largest firms to 90 per cent for the group of smallest companies. Since we

Table 17

Productivity of Capital - 1948-1954

Net Income Before Taxes as
Percentage of Total Assets

	673 Cos.	Group I	Group II	Group III	Group IV
1948	14.5	14.1	15.0	15.6	17.5
1949	13.3	12.6	14.7	14.7	15.2
1950	14.8	14.5	15.7	15.8	14.8
1951	15.9	15.8	16.7	15.1	15.6
1952	14.1	13.8	15.0	13.9	12.4
1953	13.0	12.7	14.5	12.4	13.7
1954	11.9	12.0	12.2	10.4	11.6

Table 18

Sources of Funds - 603 Companies - 1936-51

(millions of dollars)

	603 Cos.	(%)	Group I	(%)	Group II	(%)	Group III	(%)	Group IV	(%)
Retained Earnings	1849	(66)	845	(56)	599	(72)	307	(89)	100	(90)
Bonds	466	(16)	284	(18)	121	(14)	49	(14)	11	(10)
Preferred Stock	58	(2)	92	(6)	- 8	(-1)	- 30	(-9)	- 5	(-4)
Common Stock	442	(16)	301	(20)	125	(15)	21	(6)	5	(4)
	2815		1522		837		347		111	

are considering here funds available for net new investment only, we have excluded depreciation allowances.

339. If we add to our total sources of funds the allowances for depreciation claimed by our 603 companies, we have the amount of funds available for gross investment outlays and arrive at the following Table.

340. It is to be noted that for this period, internal sources (retained earnings and depreciation allowances) exceeded investment in fixed plant equipment. It can be inferred that investment decisions governing the build-up of plant capacity, are initially determined by the amount of funds available from internal sources. Recourse to the capital markets is usually, as so many prospectuses state, 'to replenish working capital and for other corporate purposes'.

341. An examination of the distribution of profits among the various claims of government, stockholders and management for expansion purposes discloses two expected results and one surprising outcome. Larger corporations tend to distribute a larger percentage of profits in dividents and smaller firms to retain more. However, the Tables show that the percentage of taxes paid rose from 38 per cent for the large firms to 47 per cent for the small firms during this period. One possible explanation may be the higher rates of excess profits tax paid by smaller firms which suddenly became very profitable during the War. Since that time, lower rates of taxation have been introduced on corporate profits up to certain levels. A more intensive analysis of the data is called for.

Table 19

(millions of dollars)

Sources of Funds 603 Cos. - 1936-51		(%)
Retained Earnings	1849	(34)
Depreciation Allowances	2625	(48)
External Sources	966	(18)
	5440	

Uses of Funds 603 Cos. - 1936-51	
Plant & Equipment	3735
Investment - Other Companies	40
Inventories	1546
Working Capital	119
	5440

Table 20

Corporate Profits, Taxes and Dividends
603 Cos. - 1935-51

(millions of dollars)

	603 Cos.	(%)	Group I	(%)	Group II	(%)	Group III	(%)	Group IV	(%)
rofits Before Taxes	9634		4957		2998		1333		344	
	...		...		...		...		...	
axes	3891	(40.4)	1868	(38)	1275	(43)	585	(44)	161	(47)
ividends	3894	(40.4)	2244	(45)	1124	(37)	441	(33)	83	(24)
etained Earnings	1849	(19.2)	845	(17)	599	(20)	307	(23)	100	(29)
	9634		4957		2998		1333		344	

342. Total gross business saving has averaged in excess of 50 per cent of Canadian savings in recent years and the final report of the Royal Commission on Canada's Economic Prospects forecast an increasing proportion of savings would be furnished by this source. Total gross business saving (depreciation and undistributed corporation profits) for 1979-81 were forecast at 63 per cent approximately of all savings.

343. This evolution poses serious problems for economic theory. Investment has usually been considered a function of expectations or anticipated profits and the allocation of capital to be determined by the careful calculation of a wide range of investment opportunities. In fact, corporations are able to expand on the basis of capital accumulated through previous profits rather than expected profits.

344. On a gross investment outlay basis, (Table 19), internal sources accounted for 82 per cent of all funds available for investment. On a net new investment basis, (Table 18), retained earnings accounted for 66 per cent of new funds. Such funds do not meet the test of our capital markets and, to this extent, the capital markets have declined in importance as the allocating mechanism of new investment in Canada.

345. In summary, Canadian corporations have generated the capital needed for growth and expansion largely from their own operations. This reliance on retained earnings has enabled corporations to build an equity cushion and, at the same time, avoid dilution of the equity. Recourse to the capital markets is

divided equally between bonds and common stock with preferred issues declining in importance. Canadian corporations are generally very liquid and long term debt is small relative to the capital employed.

346. We are reluctant to make specific tax recommendations which would force corporations to make more use of the capital markets. Such recommendations, if they are not to be considered as special pleading, can only be defended after a most thorough and searching examination of our tax structure. For example, it is often suggested that accelerated or double depreciation would reduce the tax burden and have an expanding effect on Canadian industry. But perhaps too much investment can already be attributed to the depreciation source of funds. Does not our analysis show that such tax concessions favour the larger capital intensive forms at the expense of the smaller labour using companies? What would the effect of such Book increases in costs be on profits and prices? If profits were arbitrarily reduced in this fashion, would not wage rates as well as tax revenues be jeopardized? Would dividends expand or even be maintained? Would foreign control be encouraged by such devices? etc. We are not here arguing for or against accelerated depreciation but simply pointing out that tax measures to alter an existing situation must be considered in the full complexity of all possible effects.

347. The creation of a "people's capitalism" is essentially a problem of political philosophy. The viability of an enterprise system depends on the number

of "capitalists". We would hope that managements, foreign and local, will realize that it is in their own long-run interests to expand their shareholder base to include an increasing proportion of the community.

APPENDIX I

The component exhibits of this Appendix are intended to give an indication of the extent and nature of operations of member firms. The statistics relate to the firms whose operations come under the direct supervision and audit control of the Montreal and Canadian Stock Exchanges and do not include those firms which are primarily members of other exchanges. Comparative figures are supplied for 1961 and 1951.

INDEX OF EXHIBITS

Exhibit "A" - Member Firms classified according to amount of Capital employed (including subordinated loans).

Exhibit "B" - Member Firms classified according to extent of operations.

Exhibit "C" - Member Firms classified according to function.

Exhibit "A"

Member Firms Classified According to Amount of Capital Employed (Including Subordinated Loans).

	Number of Firms 1961	 1951
Capital up to $150,000	19	14
Capital over $150,000 and under $500,000	14	18
Capital over $500,000 and under $750,000	6	1
Capital over $750,000	7	3
	46	36

It is interesting to note the change in size of the firms who were in business in 1951.

	1961	1951	Changes
Capital up to $150,000	14	14	-
Capital over $150,000 and under $500,000	11	18	-7
Capital over $500,000 and under $750,000	5	1	+4
Capital over $750,000	6	3	+3
	36	46	

It is apparent that the main growth has been experienced by the medium sized firms.

Exhibit "B"

Member Firms Classified According to Extent of Operations.

	Number of Firms 1961	 1951
International	6	5
National	1	1
Regional	15	9
Local	24	21
	46	36

Exhibit "C"

Member Firms Classified According to Function.

	Number of Firms 1961	 1951
Brokers and underwriters	23	15
Brokers	23	21
	46	36

APPENDIX II

Comparison of Montreal and New York Commission Rates on a Per Share Basis

Montreal On Shares Selling At	 Under		Commission Per Share	New York Comparative Commissions Per Share	
$	$		$		
	.05		.00$^{3/20}$		
.05	.10		.00$^{3/10}$	( )	
.10	.25		.00⅓	(from 1/10¢ to $0.1)	
.25	.50		.00¾	( )	
.50	.75		.01	.02)	on a per share basis
.75	1.00		.01½	$ .03 to .03¾)	
				.04½ to .05¼)	

On Shares Selling At	Under		Commission Per Share	Basis 100 Shares	Basis 50 Shares	Basis 25 Shares	Basis 10 Shares
				$	$	$	$
1.00	2.00		.02½	.06$^{1/3}$	dis-cretion	dis-cretion	dis-cretion
2.00	3.00		.04½	.07$^{7/8}$	.12	"	"
3.00	4.00		.07	.10$^{1/3}$	.12	"	"
4.00	5.00		.10	.11½	.12	.24	"
5.00	7.50		.15	.14¼	.14$^{1/3}$	.24	"
7.50	10.00		.20	.15$^{5/8}$	.18⅓	.24	"
10.00	15.00		.25	.19⅜	.22½	.29	.60
15.00	25.00		.30	.26¾	.30	.39½	.60
25.00	40.00		.35	.35¼	.42½	.52½	.75
40.00	60.00		.40	.42	.57	.70	1.00
60.00	80.00		.45	.46	.69	.90	1.20
80.00	100.00		.50	.48	.79	1.09	1.40
100.00	110.00		.55	.49½	.84½	1.20	1.50(max)
110.00	120.00		.60	.50½	.85½	1.24	
120.00	150.00	average	.67½ ☆	.52½	.88	1.35	
150.00	200.00	"	.87½ ☆	.56½	.91	1.47	
200.00	300.00	"	1.25 ☆	.64	.98½	1.50(max)	
300.00	360.00	"	1.65 ☆	.72	1.07		
360.00	400.00	"	1.90 ☆	.75(max)	1.12		
400.00	500.00	"	2.25 ☆		1.19		
500.00	600.00	"	2.75 ☆		1.29		
600.00	700.00	"	3.25 ☆		1.39		
700.00	760.00	"	3.65 ☆		1.47		
760.00	up				1.50(max)		

☆ ½% of money involved

APPENDIX III

MARGIN REQUIREMENTS OF THE MONTREAL AND CANADIAN STOCK EXCHANGES

Listed Securities

On securities (other than bonds and debentures) listed on any recognized stock exchange in Canada or the United States and on the Stock List of The Stock Exchange, London:

Long positions:

(a)	Securities selling at $1.00 or more	50%
(b)	Securities selling under $1.00 but not less than 50 cents, if purchased on margin or accepted as collateral when selling at $1.00 or more -	50%
(c)	Securities selling under $1.00 which do not qualify under item (b) above -	100%

Short positions:

(a) Where securities selling at $1.00 or more have been sold short, the credit balance against the short position must be maintained at a minimum of 150 per cent of the market value of the securities.

(b) Where securities have been sold short at $1.00 or more and the market price goes below $1.00, the credit balance against the short position must be maintained at the lesser of $1.50 per share or twice the market value of the securities, with the proviso that if the market price goes below 50 cents, the credit balance to be

maintained shall be equal to the market price plus 50 cents per share.

(c) Where securities selling under $1.00 have been sold short under $1.00, the credit balance against the short position must be maintained at twice the market value of the securities with a minimum of the market value plus 50 cents per share.

Unlisted Securities

Unlisted securities of the following types may be carried on margin on the same basis as prescribed for listed securities:

Insurance Companies licensed to do business in Canada

Canadian banks

Canadian trust companies

Canadian mutual funds

Canadian utility companies

Senior securities of already listed companies

Unlisted securities in respect of which application has been made to list on a recognized Canadian stock exchange and approval has been given subject to the filing of documents and production of evidence of satisfactory distribution.

The minimum margin which must be obtained on all other unlisted securities shall be as follows:

Long positions - 100%

Short positions - Where other unlisted securities have been sold short the credit balance against the short position must be maintained at twice the market value with a minimum of the market value plus $1.00 per share.

Bonds, Debentures and Treasury Bills	Margin Required
Group 1 - Canadian, Canadian Guaranteed and U.S. Government - maturing as follows:	
Within 6 months	1/10 of 1% of market value
from 6 months to 3 years	1 point
from 3 years to 5 years	1½ points
from 5 years to 10 years	2 points
from 10 years to 20 years	3 points
over 20 years	5 points
Group 2 - Provincial and Provincial Guaranteed - maturing as follows:	
within 6 months	½ point
from 6 months to 3 years	1 point
from 3 years to 5 years	2 points
from 5 years to 10 years	3 points
over 10 years	5 points
Group 3 - Municipal, School Commission, Religious Order and Hospital Corporation bonds and debentures, not in default	5 points
Group 4 - Other non-commercial bonds and debentures, not in default	10 points
Group 5 - Commercial bonds and debentures, not in default	
(a) Selling above 50% of par value and maturing:	
Within 5 years	5 points (see note)
5 to 10 years	7 points (see note)
over 10 years	10 points (see note)
(b) Selling at 50% of par value or under:	

All maturities - 50% of market value

Note: Add 25% of excess of market value over par if convertible into approved marginable securities and 100% if convertible into securities not acceptable for margin.

Group 6 - Bonds in default:

All maturities - 50% of market value

Group 7 - Term Paper:

Marketable prime commercial paper of companies which have securities listed on a recognized Exchange in Canada

All Maturities 1 point

General

Securities carried by members, member firms or member corporations in inventory, trading, arbitrage and joint accounts, shall be subject to the above margin requirements.

The above requirements shall also apply to when, as and if issued transactions.

APPENDIX IV

The component Exhibits of this Appendix are the result of an analysis of the financial reports of the members of the Montreal and Canadian Stock Exchanges.

Index of Exhibits

Exhibit "A"	-	Preface
Exhibit "B"	-	Aggregate Brokers' Assets and Liabilities
Exhibit "C"	-	Summary of Revenue and Expenditure
Exhibit "D"	-	Analysis of 1961 Operating Results of Member Firms
Exhibit "E"	-	Aggregate of Assets and Liabilities Relating to the Canadian Operations of U.S. Brokers who are Members of the Montreal and Canadian Stock Exchanges
Exhibit "F"	-	Summary of Revenue and Expenditure Arising from Canadian Operations of U.S. Brokers who are Members of the Montreal and Canadian Stock Exchanges
Exhibit "G"	-	Securities Owned by Member Brokers
Exhibit "H"	-	Securities Sold Short by Member Brokers

PREFACE TO FINANCIAL EXHIBITS INCLUDED IN APPENDIX IV

The financial information included in the following exhibits relates to the operations of those members who are primarily members of the Montreal and Canadian Stock Exchanges and whose financial reports are regularly under the audit supervision of the Montreal and Canadian Stock Exchanges. The exhibits do not include information obtained from all members of the Exchanges since they exclude data relating to those members who are primarily members of the Toronto, New York and American Stock Exchanges.

It will be observed that the number of firms reporting varies for each year for which data is given. Generally speaking, the figures have been compiled from reports received from members who were members at the end of 1961. It would be almost impossible to obtain financial data from firmswho were members (say) in 1951 and were not members in 1961 and, in some situations, from firms who were members in 1961 but not in certain of the other years in the past.

For these and other reasons the summaries are not on a fully comparative basis and conclusions as to growth in size and changes in other relationships, as between years, should be drawn with this in mind. The foregoing remarks refer to the following exhibits:

Aggregate of Member Brokers' Assets and Liabilities

Summary of Revenue and Expenditure

Securities Owned by Member Brokers

Securities Sold Short by Member Brokers

Analysis of 1961 Operating Results

Two exhibits have been prepared in connection with the operations of U.S. brokers in Canada. Because the U.S. firms normally do not maintain separate accounting records for Canadian operations, the statistics were not easy to obtain and it was only by enlisting the cooperation of a number of firms that estimates were secured which enabled a reasonable presentation to be made. It is noteworthy that the U.S. firms who responded to our request for information reported that they did not carry inventories of securities in connection with their Canadian operations. There are ten members of the Montreal and Canadian Stock Exchanges who are members of either the New York or the American Stock Exchange and the undernoted exhibits include data received from nine. The two exhibits are:

Aggregate of Assets and Liabilities relating to the Canadian Operations of U.S. Brokers

Summary of Revenue and Expenditure arising from Canadian Operations of U.S. Brokers

The exhibit which summarizes the securities owned by member firms indicates that substantial quantities of Government of Canada bonds are owned by the members. These holdings are actually concentrated in the hands of a very few members who combine the function of investment dealer and stock broker in the one organization.

Appendix IV

MONTREAL AND CANADIAN STOCK EXCHANGES

AGGREGATE OF MEMBER BROKERS' ASSETS AND LIABILITIES

	Summarized from Balance Sheets at the End of Financial Years Ended in				
Assets	1961	1960	1959	1958	1951
Cash	$ 14,155,986	5,509,722	6,270,290	7,903,677	5,511,624
Securities owned	10,623,530	8,300,727	5,193,523	7,507,854	1,715,882
Securities in joint accounts	111,433	-	-	-	13,287
Clients' accounts after allowance for doubtful accounts	48,472,920	43,828,278	49,729,008	46,811,539	43,484,080
Partners' or shareholders' accounts	577,342	502,272	819,022	937,308	1,124,032
Brokers' accounts	26,947,733	13,606,540	14,862,665	14,733,298	4,736,768
Other current assets	247,448	370,901	1,300,015	821,169	274,154
Total current assets	101,136,392	72,118,440	78,174,523	78,714,845	56,859,827
Fixed assets less depreciation	765,694	773,301	744,389	757,216	365,338
Stock exchange seats	2,532,569	2,662,080	2,416,975	2,454,376	1,511,452
Goodwill	550,000	550,000	630,000	705,000	-
Other assets	2,008,986	1,947,954	1,724,127	1,981,347	671,059
Total non-current assets	5,857,249	5,933,335	5,515,491	5,897,939	2,547,849
Total assets	$ 106,993,641	78,051,775	83,690,014	84,612,784	59,407,676
Liabilities					
Loans and overdrafts	$ 24,681,721	20,133,213	21,395,320	17,489,125	24,216,314
Securities sold short	402,918	237,423	323,203	328,612	406,729
Securities sold short in joint accounts	79,041	-	-	-	-
Clients' accounts:					
Free credit balances	23,865,771	14,907,272	18,834,494	20,792,014	13,625,987
Other balances	4,938,327	2,683,048	4,291,070	5,666,848	2,756,419
Partners' or shareholders' accounts:					
Free credit balances	397,810	346,556	564,792	636,670	461,697
Other balances	3,979	22,375	24,289	62,310	294,002
Brokers' accounts	27,796,384	19,346,536	15,608,504	17,393,058	6,496,362
Other current liabilities	5,602,798	2,776,491	4,892,413	4,910,565	1,435,246
Total current liabilities	87,768,749	60,452,914	65,934,085	67,279,202	49,692,756
Subordinated loans	3,265,666	2,722,693	1,671,200	1,646,000	78,730
Total liabilities	91,034,415	63,175,607	67,605,285	68,925,202	49,771,486
Net worth	15,959,226	14,876,168	16,084,729	15,687,582	9,636,190
Total liabilities and net worth	$ 106,993,641	78,051,775	83,690,014	84,612,784	59,407,676
Number of firms reporting	46	46	50	50	36

The above summary has been compiled from financial statements submitted by members (including limited companies, partnerships and sole proprietorships) of the Montreal and Canadian Stock Exchanges. The summary does not include figures in respect of members who are primarily members of other stock exchanges whose figures would be included in statistical summaries of the other stock exchanges. The summary also does not include the assets and liabilities of members who do not deal with the public.

Appendix IV

MONTREAL AND CANADIAN STOCK EXCHANGES

SUMMARY OF REVENUE AND EXPENDITURE

	For Financial Years Ended in				
Revenue	1961	1960	1959	1958	1951
Brokerage commissions	$ 18,514,835	12,024,906	16,249,808	11,827,385	12,150,297
Underwriting and trading profits (net)	3,297,257	2,324,262	2,035,568	1,860,686	1,001,376
Interest and dividends earned (net)	1,081,324	1,176,124	1,334,221	1,314,001	712,887
Other revenue	1,046,914	987,811	1,103,951	1,632,012	474,635
Gross revenue	$ 23,940,330	16,513,103	20,723,548	16,634,084	14,339,195
Expenditure					
Commissions to other brokers and dealers	$ 937,685	671,359	881,798	616,869	549,601
Employees' remuneration	9,463,202	8,334,895	8,715,581	8,102,198	4,735,423
Communications	2,287,993	2,430,500	2,383,755	2,108,979	1,280,084
Occupancy and equipment	1,583,761	1,457,166	1,499,592	1,301,627	701,926
Promotional	578,169	636,399	643,348	564,408	545,309
Other expenses	3,154,854	1,901,212	2,007,779	1,758,635	1,244,437
Total operating expenses	$ 18,005,664	15,431,531	16,131,853	14,452,716	9,056,780
Net operating revenue (A)	$ 5,934,666	1,081,572	4,591,695	2,181,368	5,282,415
Number of firms reporting	45	44	43	40	35

(A) Net operating revenue, before deducting salaries, bonuses and other remuneration of partners and shareholders and before deducting income taxes.

Appendix IV

MONTREAL AND CANADIAN STOCK EXCHANGES

ANALYSIS OF 1961 OPERATING RESULTS OF MEMBER FIRMS

Size of Firm	Number of Firms Reporting	Brokerage Commissions	Underwriting and Trading Profits	Net Operating Revenue (A)
Capital under $150,000	19	$ 1,840,026	$ 105,843	$ 570,952
" $150,000 to $499,999	13	3,778,628	924,387	1,695,628
" $500,000 to $749,999	6	3,649,489	334,207	1,046,212
" $750,000 and over	7	9,246,692	1,932,820	2,621,874
	45	$ 18,514,835	$ 3,297,257	$ 5,934,666

(A) Net operating revenue, after operating expenses but before deducting salaries, bonuses and other remuneration of partners and shareholders and before deducting income taxes.

Appendix IV

MONTREAL AND CANADIAN STOCK EXCHANGES

AGGREGATE OF ASSETS AND LIABILITIES RELATING TO THE CANADIAN OPERATIONS OF U.S. BROKERS WHO ARE MEMBERS OF THE MONTREAL AND CANADIAN STOCK EXCHANGES

Assets	1961	1960	1959	1958
Cash	$ 1,085,553	$ 1,315,277	$ 1,252,684	$ 1,041,946
Securities owned	22,725	82,687	390,931	91,932
Clients' accounts	18,563,188	13,103,643	13,203,798	9,062,620
Brokers' accounts	2,349,671	1,686,270	2,197,737	1,679,225
Other current assets	302,010	149,580	301,545	135,571
Total current assets	22,323,147	16,337,457	17,346,695	12,011,294
Fixed assets	135,525	145,286	79,819	76,143
Stock exchange seats	603,773	599,773	531,273	431,272
Other assets	1,337,068	465,077	304,864	240,046
Total assets	$ 24,399,513	$ 17,547,593	$ 18,262,651	$ 12,758,755
Liabilities				
Loans and overdrafts	$ 9,993,664	$ 7,280,588	$ 7,951,492	$ 5,457,124
Securities sold short	1,695	7,497	4,264	810
Clients' free credit balances	5,321,788	3,789,211	3,744,489	3,499,267
Other clients' balances	703,662	1,304,458	886,929	582,342
Brokers' accounts	2,795,169	1,614,289	1,602,197	1,599,827
Other current liabilities	304,628	233,690	478,944	188,115
Total liabilities	$ 19,120,606	$ 14,229,733	$ 14,668,315	$ 11,327,485
Excess of assets over liabilities	$ 5,278,907	$ 3,317,860	$ 3,594,336	$ 1,431,270
Number of firms reporting	9	9	9	8

Appendix IV

MONTREAL AND CANADIAN STOCK EXCHANGES

SUMMARY OF REVENUE AND EXPENDITURE ARISING FROM CANADIAN OPERATIONS OF U.S. BROKERS WHO ARE MEMBERS OF THE MONTREAL AND CANADIAN STOCK EXCHANGES

	For Financial Years Ended in			
Revenue	1961	1960	1959	1958
Brokerage commissions	$ 6,034,479	$ 3,914,815	$ 4,519,868	$ 2,963,821
Underwriting and trading profits (net)	329,381	281,309	224,594	173,624
Interest and dividends earned	310,350	264,469	238,309	197,452
Other interest	93,005	57,053	113,026	91,376
Gross revenue	$ 6,767,215	$ 4,517,646	$ 5,095,797	$ 3,426,273
Expenditure				
Commissions to other brokers and dealers	$ 564,939	$ 295,305	$ 486,873	$ 324,419
Employees' remuneration	3,072,765	2,259,299	2,166,714	1,512,246
Communications	527,346	483,991	424,642	305,743
Occupancy and equipment	309,602	302,332	235,635	189,870
Promotional	186,619	111,849	102,393	70,628
Other expenses	783,765	578,571	585,511	334,246
Total operating expenses	$ 5,445,036	$ 4,031,347	$ 4,001,768	$ 2,737,152
Net operating revenue (A)	$ 1,322,179	$ 486,299	$ 1,094,029	$ 689,121
Number of firms reporting	9	9	9	8

(A) Net operating revenue, before deducting salaries, bonuses and other remuneration of partners and shareholders and before deducting income taxes.

Appendix IV

MONTREAL AND CANADIAN STOCK EXCHANGES

SECURITIES OWNED BY MEMBER BROKERS

		At the End of Financial Years in		
		1961	1960	1959
Bonds and debentures:				
Government of Canada	- under 2 years	$ 7,608,198	1,772,309	2,691,168
	- 2 to 7 years	320,905	378,838	311,097
	- over 7 years	556,909	2,471,174	203,340
		8,486,012	4,622,321	3,205,605
Provincial	- under 2 years	205,892	274,500	479,251
	- 2 to 7 years	221,782	132,881	12,000
	- over 7 years	195,976	1,093,074	19,253
		623,650	1,500,455	510,504
Municipal	- under 2 years	72,554	21,990	42,283
	- 2 to 7 years	39,243	25,220	5,000
	- over 7 years	64,940	274,910	111,025
		176,737	322,120	158,308
Hospitals and School Commissions	- under 2 years	-	-	465
	- 2 to 7 years	35,637	22,495	475
	- over 7 years	11,062	86,970	5,000
		46,699	109,465	5,940
Other corporations	- under 2 years	7,069	7,135	9,024
	- 2 to 7 years	51,457	85,000	3,180
	- over 7 years	501,809	312,475	249,812
		560,335	404,610	262,016
Total bonds and debentures		9,893,433	6,958,971	4,142,373
ommercial paper maturing within one year		-	574,679	250,485
referred stocks	- listed on a recognized exchange	25,943	38,477	8,898
	- not listed	20,985	137	-
		46,928	38,614	8,898
ommon stocks	- listed on a recognized exchange	536,013	534,604	438,482
	- not listed	141,370	162,207	120,765
		677,383	696,811	559,247
Total stocks		724,311	735,425	568,145
Totals		$ 10,617,744	8,269,075	4,961,003
mber of firms reporting		46	44	43

Appendix IV

MONTREAL AND CANADIAN STOCK EXCHANGES

SECURITIES SOLD SHORT BY MEMBER BROKERS

	At the End of Financial Years in		
	1961	1960	1959
Bonds and debentures:			
Government of Canada	$ 139,000	86,000	184,100
Provincial	81,030	-	13,000
Other corporations	225,030	90,000	210,100
Total bonds and debentures	445,060	176,000	407,200
Preferred stocks	10,700	-	9,850
Common stocks	167,188	144,946	89,894
Total stocks	177,888	144,946	99,744
Totals	$ 622,948	320,946	506,944
Number of firms reporting	46	44	43

APPENDIX V

The component Exhibits of this Appendix were prepared as summaries of a Survey conducted by the Montreal and Canadian Stock Exchanges in June of 1962 to establish various Industrial indices as to the Geographic distribution of the ownership of Common shares issued by leading Canadian corporations.

Index of Exhibits

Exhibit "A"	-	Manufacturing Industry
Exhibit "B"	-	Petroleum and Natural Gas Industry
Exhibit "C"	-	Mining Industry
Exhibit "D"	-	Trust and Financial Industry
Exhibit "E"	-	Public Utility Industry
Exhibit "F"	-	Chartered Banks

Exhibit "A"

Comparative Analysis of Common Share Ownership[a]
Selected Companies listed on Canadian and Montreal Stock Exchanges

Manufacturing Industry

Geographic Distribution of Shareholders

Quebec	Other Canadian Provinces	United States	United Kingdom	Other Countries
23.46%	56.55%	18.19%	1.01%	.79%

Geographic Distribution of Shares

Quebec	Other Canadian Provinces	United States	United Kingdom	Other Countries
30.46%	40.20%	26.27%	2.03%	1.04%

Geographic Distribution of Values[b] Represented by Shares

Quebec	Other Canadian Provinces	United States	United Kingdom	Other Countries
28.93%	45.72%	22.15%	2.20%	1.0%

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a) Date of Record December 31, 1961 or at the close of most recent fiscal year.

b) Last transaction in Canadian dollars as of January 2, 1962 (Board Lots).

Exhibit "B"

Comparative Analysis of Common Share Ownership[a]
Selected Companies listed on Canadian and Montreal Stock Exchanges

Petroleum and Natural Gas Industry

Geographic Distribution of Shareholders

Quebec	Other Canadian Provinces	United States	United Kingdom	Other Countries
12.38%	55.06%	31.03%	.71%	.82%

Geographic Distribution of Shares

Quebec	Other Canadian Provinces	United States	United Kingdom	Other Countries
12.81%	22.05%	63.49%	.39%	1.26%

Geographic Distribution of Values[b] Represented by Shares

Quebec	Other Canadian Provinces	United States	United Kingdom	Other Countries
11.03%	20.96%	65.17%	1.18%	1.66%

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a) Date of Record December 31, 1961 or at the close of most recent fiscal year.

b) Last transaction in Canadian dollars as of January 2, 1962 (Board Lots).

Exhibit "C"

Comparative Analysis of Common Share Ownership[a]
Selected Companies listed on Canadian and Montreal Stock Exchanges

Mining Industry

Geographic Distribution of Shareholders

Quebec	Other Canadian Provinces	United States	United Kingdom	Other Countries
13.44%	50.76%	34.36%	.74%	.70%

Geographic Distribution of Shares

Quebec	Other Canadian Provinces	United States	United Kingdom	Other Countries
14.85%	47.44%	35.88%	.65%	1.18%

Geographic Distribution of Values[b] Represented by Shares

Quebec	Other Canadian Provinces	United States	United Kingdom	Other Countries
20.86%	49.56%	26.78%	1.19%	1.61%

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a) Date of Record December 31, 1961 or at the close of most recent fiscal year.

b) Last transaction in Canadian dollars as of January 2, 1962 (Board Lots).

Exhibit "D"

Comparative Analysis of Common Share Ownership[a]
Selected Companies listed on Canadian and Montreal Stock Exchanges

Trust and Financial Companies

Geographic Distribution of Shareholders

Quebec	Other Canadian Provinces	United States	United Kingdom	Other Countries
29.64%	53.78%	14.55%	1.38%	.65%

Geographic Distribution of Shares

Quebec	Other Canadian Provinces	United States	United Kingdom	Other Countries
36.70%	43.49%	15.40%	4.18%	.23%

Geographic Distribution of Values[b] Represented by Shares

Quebec	Other Canadian Provinces	United States	United Kingdom	Other Countries
35.85%	43.83%	17.15%	2.86%	.31%

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a) Date of Record December 31, 1961 or at the close of most recent fiscal year.

b) Last transaction in Canadian dollars as of January 2, 1962 (Board Lots).

Exhibit "E"

Comparative Analysis of Common Share Ownership[a]
Selected Companies listed on Canadian and Montreal Stock Exchanges

Utility Companies

Geographic Distribution of Shareholders

Quebec	Other Canadian Provinces	United States	United Kingdom	Other Countries
16.67%	51.95%	26.25%	3.59%	1.54%

Geographic Distribution of Shares

Quebec	Other Canadian Provinces	United States	United Kingdom	Other Countries
20.32%	44.54%	20.10%	8.73%	6.31%

Geographic Distribution of Values[b] Represented by Shares

Quebec	Other Canadian Provinces	United States	United Kingdom	Other Countries
19.95%	48.97%	18.53%	7.32%	5.23%

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a) Date of Record December 31, 1961 or at the close of most recent fiscal year.

b) Last transaction in Canadian dollars as of January 2, 1962 (Board Lots).

Exhibit "F"

Appendix V

Comparative Analysis of Common Share Ownership[a]
Selected Companies listed on Canadian and Montreal Stock Exchanges

Chartered Banks

Geographic Distribution of Shareholders

Canada	United States	British Commonwealth and United Kingdom	Other Countries
84.10%	3.76%	11.20%	.94%

Geographic Distribution of Shares

Canada	United States	British Commonwealth and United Kingdom	Other Countries
75.63%	3.71%	18.43%	2.23%

Geographic Distribution of Values[b] Represented by Shares

Canada	United States	British Commonwealth and United Kingdom	Other Countries
76.29%	3.94%	18.76%	1.01%

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a) Date of Record December 31, 1961 or at the close of most recent fiscal year.

b) Last transaction in Canadian dollars as of January 2, 1962 (Board Lots).

APPENDIX VI

The component Exhibits of this Appendix have been prepared from the 1961 Taxation Statistics in a manner calculated to facilitate the utilization of the data for the purposes of this submission. The resultant reorganization of the Department of National Revenue's statistics emphasizes certain relationships not readily apparent to the source document.

Index of Exhibits

Exhibit "A"	- Percentage Distribution of Investment Income, by Sources, Investment Income as a per cent of total Income declared by Individuals for Income Tax Purposes, by Income Classes, Canada, 1959.
Exhibit "B"	- Percentage Distribution of Investment Income, by Sources, Total Tax Returns, and Total Income Declared by Individuals for Income Tax Purposes, Among Income Classes, Canada, 1959.
Exhibit "C"	- Percentage Distribution of Investment Income, By Sources, Investment Income as per cent of Total Income Declared by Individuals for Income Tax Purposes, Average Total Income Declared, by Occupations, Canada, 1959.
Exhibit "D"	- Percentage Distribution of Investment Income, by Sources, Total Income Declared by Individuals for Tax Purposes, and Total Tax Returns, Among Occupations, Canada, 1959.

Exhibit "E" - Distribution of Tax Returns of Individuals Reporting Incomes of $8,000 and over for Income Tax Purposes, Taxpayers only, by Occupations, Canada, 1959.

Exhibit "F" - Percentage Distribution of Investment Income, by Sources, Investment Income as a percent of Total Income Declared by Individuals for Income Tax Purposes, per cent of Total Investment Income Received, Taxable Returns Reporting Income of $8,000 and over as per cent of Total Taxable Returns, Average Total Income Declared, Resident Taxpayers only, by Provinces, Canada, 1959.

Exhibit "G" - Distribution of Investment Income, by Sources, Total Income Declared by Individuals for Tax Purposes, Total Taxable Returns Reporting Income of $8,000 and over, Average Total Income Declared, Taxpayers Only, by Provinces, Canada, 1959.

Exhibit "H" - Percentage Distribution of Investment Income, by Sources, Investment Income as per cent of Total Income Declared by Individuals for Income Tax Purposes, per cent of Total Returns Reporting Income of $8,000 and over, Average Total Income Declared, Taxpayers only, by Size of Center, Canada, 1959.

Exhibit "I" - Distribution of Investment Income, by Sources, and Total Income Declared by Individuals for Income Tax Purposes, Taxpayers only, by Size of Center, Canada, 1959.

Exhibit "J" - Percentage Distribution of Investment Income, by Sources, Investment Income as per cent of Total Income Declared by Individuals for Tax Purposes, Average Total Income Declared, Personal Exemptions Claimed by Individuals for Tax Purposes, per cent of Total Returns Reporting Income of $8,000 and over, Taxpayers Only, Ontario and Quebec, by size of Center, Canada, 1959.

Exhibit "A"

Percentage Distribution of Investment Income, by Sources, Investment Income as per cent of Total Income Declared by Individuals For Income Tax Purposes, by Income Classes, Canada, 1959

Income Class	Investment Income									Investment Income as Per Cent of Total Income
	Equity			Creditor						
	Dividend	Rental Income	Total Equity	Bond and Bank Interest	Mortgage and other Interest	Annuity Income	Total Creditor	Estate Income	Total	
Under $1,000	14.7	28.1	42.8	37.8	12.5	2.3	52.6	4.6	100.0	5.1
1,000- 1,999	16.2	30.1	46.4	32.9	11.7	3.1	47.7	5.9	100.0	4.5
2,000- 2,999	18.4	26.0	44.4	32.1	13.1	3.3	48.6	7.0	100.0	3.3
3,000- 3,999	21.3	23.8	45.1	31.0	13.3	2.8	47.0	7.9	100.0	2.3
4,000- 4,999	23.6	22.4	46.0	30.3	12.2	2.4	44.9	9.1	100.0	2.0
5,000- 5,999	25.5	23.9	49.4	25.7	11.6	1.7	39.1	11.5	100.0	2.7
6,000- 6,999	28.8	22.9	51.7	23.3	12.1	1.1	36.4	11.9	100.0	3.5
7,000- 7,999	29.0	22.9	51.9	21.9	14.5	1.4	37.8	10.3	100.0	5.0
8,000- 8,999	32.7	23.6	56.3	21.6	10.7	1.8	34.1	9.6	100.0	6.4
9,000- 9,999	35.7	21.3	57.0	19.6	12.0	1.0	32.5	10.6	100.0	7.8
10,000-14,999	38.4	17.4	55.7	20.8	10.0	.9	31.7	12.6	100.0	11.0
15,000-19,999	42.0	16.5	58.6	18.2	9.1	.6	27.9	13.7	100.0	14.3
20,000-24,999	44.4	14.6	58.9	17.8	8.6	.6	27.0	14.1	100.0	17.9
25,000-49,999	46.5	12.6	59.1	17.3	7.5	.5	25.3	15.6	100.0	22.5
50,000-99,999	55.3	8.3	63.5	16.8	5.5	.3	22.6	13.8	100.0	32.9
100,000 & Over	59.4	2.3	61.7	16.7	3.3	.1	20.1	18.3	100.0	48.5
All Classes	32.8	19.8	52.6	24.2	10.5	1.6	36.3	11.1	100.0	4.8

Source: Department of National Revenue, Taxation Division, 1961 Taxation Statistics, pp. 32-39, Section II, Table 2.

Exhibit "B"

Percentage Distribution of Investment Income, by Sources, Total Tax Returns, and Total Income Declared by Individuals for Income Tax Purposes, Among Income Classes, Canada, 1959

Income Class	Investment Income									Per Cent of Total Tax Returns	Per Cent of Total Income(a
	Equity			Creditor							
	Dividend	Rental Income	Total Equity	Bond and Bank Interest	Mortgage and other Interest	Annuity Income	Total Creditor	Estate Income	Per Cent of Total		
Under $1,000	0.9	2.7	1.5	3.0	2.3	2.7	2.8	0.8	1.9	12.1	1.8
1,000- 1,999	3.7	11.5	6.7	10.3	8.4	14.9	9.9	4.0	7.6	18.5	8.2
2,000- 2,999	5.7	13.4	8.6	13.5	12.7	21.3	13.6	6.5	10.2	20.4	14.9
3,000- 3,999	6.0	11.1	7.9	11.7	11.6	15.9	11.9	6.5	9.2	19.1	19.5
4,000- 4,999	5.4	8.4	6.5	9.3	8.7	11.0	9.2	6.2	7.5	13.5	17.6
5,000- 5,999	4.9	7.7	6.0	6.8	7.0	6.9	6.8	6.6	6.4	7.1	11.3
6,000- 6,999	4.1	5.4	4.6	4.5	5.4	3.2	4.7	5.1	4.7	3.4	6.5
7,000- 7,999	3.7	4.9	4.2	3.8	5.8	3.7	4.4	3.9	4.2	1.9	4.1
8,000- 8,999	3.4	4.1	3.7	3.1	3.5	4.0	2.2	3.0	3.4	1.1	2.6
9,000- 9,999	3.3	3.2	3.2	2.4	3.4	1.8	2.7	2.9	3.0	0.7	1.9
10,000-14,999	12.5	9.4	11.4	9.2	10.2	6.2	9.4	12.2	10.7	1.3	4.7
15,000-19,999	8.2	5.3	7.1	4.8	5.6	2.3	4.9	7.8	6.4	0.4	2.2
20,000-24,999	5.8	3.1	4.8	3.1	3.5	1.6	3.2	5.4	4.3	0.2	1.1
25,000-49,999	14.9	6.7	11.8	7.5	7.6	3.0	7.3	14.9	10.5	0.2	2.3
50,000-99,999	10.0	2.5	7.2	4.1	3.1	1.2	3.7	7.4	5.9	(b)	0.9
100,000 & Over	7.4	0.5	4.8	2.8	1.3	0.3	2.3	6.8	4.1	(b)	0.4
Totals	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(a) Total Income Declared on all returns.
(b) Less than 0.05 per cent.
Source: Department of National Revenue, Taxation Division,
1961 Taxation Statistics, pp. 32-39, Section II, Table 2.

Exhibit "C"

Percentage Distribution of Investment Income, by Sources, Investment Income as Per Cent of Total Income Declared by Individuals for Income Tax Purposes, Average Total Income Declared, by Occupations, Canada, 1959

OCCUPATION	Investment Income							Investment Income as Per Cent of Total Income	Average Total Income Declared $
	Dividends	Rental Income	Bond & Bank Interest	Mortgage & Other Interest	Annuity Income	Estate Income	Total		
Total Professionals (a)	41.5	8.7	29.9	13.9	1.6	4.3	100.0	5.3	10,632
Medical Doctors & Surgeons	41.8	7.7	33.9	10.3	2.5	3.7	100.0	4.5	15,318
Consulting Engineers & Architects	44.2	12.1	29.6	5.4	0.8	7.6	100.0	6.4	14,037
Lawyers and Notaries	41.4	7.2	24.3	22.0	0.6	4.6	100.0	7.7	13,432
Dentists	35.9	13.7	30.8	13.3	3.1	3.3	100.0	5.1	10,820
Accountants	48.8	11.0	26.4	10.4	0.6	2.8	100.0	5.3	10,521
Entertainers & Artists	42.9	8.4	32.2	12.1	2.3	1.9	100.0	1.6	5,316
Nurses	38.7	(3.9)	49.5	8.6	4.2	2.9	100.0	4.7	2,197
Salesmen	38.1	4.7	31.2	18.5	1.7	5.6	100.0	2.5	4,867
Investors	33.0	22.2	17.5	9.8	1.4	16.0	100.0	76.5	4,406
Total Business Proprietors	17.3	39.6	24.1	15.8	0.6	2.6	100.0	5.3	4,010
Proprietors of Financial Businesses	37.0	14.3	23.1	18.6	0.5	6.5	100.0	8.0	8,141
Wholesale Traders	20.7	41.5	22.9	12.6	0.4	1.9	100.0	6.8	5,784
Manufacturers	24.2	36.4	22.9	14.6	0.8	1.2	100.0	4.8	4,327
Retail Traders	14.0	45.3	24.9	12.8	0.4	2.5	100.0	5.9	4,196
Proprietors of Construction Businesses	12.2	42.4	20.7	22.4	1.6	0.7	100.0	3.7	4,030
Proprietors of Service Businesses	14.5	41.2	23.2	18.0	0.4	2.6	100.0	5.6	3,262
Forestry Operators	23.6	5.2	49.0	16.8	0.2	4.8	100.0	2.8	3,172
Public Utility Operators	9.8	39.3	29.4	18.9	(d)	2.7	100.0	2.7	3,133

Cont'd

OCCUPATION	Investment Income							Investment Income as Per Cent of Total Income	Average Total Income Declared $
	Dividends	Rental Income	Bond & Bank Interest	Mortgage & Other Interest	Annuity Income	Estate Income	Total		
Total Employees	38.7	11.2	35.5	9.2	1.8	3.6	100.0	1.3	3,312
Municipal Government Employees	22.4	12.3	46.3	12.3	3.0	3.8	100.0	0.9	3,693
Teachers, Professors, etc. (b)	28.9	5.6	49.9	4.8	2.6	3.3	100.0	1.5	3,680
Federal Government Employees	24.9	10.6	47.8	10.3	2.4	4.0	100.0	1.0	3,519
Provincial Government Employees	28.0	10.4	45.3	10.5	2.0	3.7	100.0	1.0	3,323
Employees of Businesses	41.1	11.6	33.2	9.0	1.6	3.4	100.0	1.3	3,320
Employees of Institutions	25.5	8.9	46.0	9.4	5.2	5.1	100.0	1.3	2,259
Primary Producers	16.6	14.6	45.7	19.2	0.6	3.3	100.0	6.0	2,314
Fishermen	33.1	3.9	55.4	7.3	(d)	(d)	100.0	1.6	2,824
Farmers	16.4	14.7	45.6	19.4	0.6	3.3	100.0	6.2	2,294
Pensioners	25.3	8.3	47.3	6.4	9.3	3.4	100.0	14.8	2,024
Total Returns (c)	32.8	19.8	24.2	10.5	1.6	11.1	100.0	4.8	3,405

(a) Only professionals who are engaged in practice for profit are listed in their professional capacity. Professionals working on a salary basis are classified as employees.

(b) Includes non-teaching employees.

(c) Includes estates and unclassified individuals.

(d) Less than 0.05 per cent.

Exhibit "D"

Percentage Distribution of Investment Income, by Sources, Total Income Declared by Individuals for Tax Purposes, and Total Tax Returns, Among Occupations, Canada, 1959

OCCUPATION	Investment Income							Income From All Sources	Tax Returns	Average Income
	Dividends	Rental Income	Bond & Bank Interest	Mortgage & Other Interest	Annuity Income	Estate Income	Total			
Professionals (a)	3.6	1.2	3.5	3.7	2.9	1.1	2.8	2.6	0.8	10,632
Salesmen	1.0	0.2	1.1	1.5	0.9	0.4	0.8	1.6	1.1	4,867
Investors	60.1	67.0	43.2	55.8	53.0	86.5	59.7	3.8	2.9	4,406
Business Proprietors	3.7	13.9	6.9	10.5	2.5	1.7	7.0	6.3	5.4	4,010
Total Employees	26.1	12.5	32.4	19.2	25.5	7.2	22.1	82.1	84.5	3,312
Employees of Businesses	23.2	10.8	25.5	15.9	19.0	5.8	18.5	66.8	68.6	
All Others (b)	2.9	1.7	6.9	3.3	6.5	1.4	3.6	15.3	15.9	
Primary Producers	1.6	2.3	6.0	5.8	1.2	0.9	3.2	2.6	3.8	2,314
Pensioners	1.6	0.8	3.9	1.2	11.8	0.6	2.0	0.7	1.1	2,024
Totals (c)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-	3,405

(a) Only professionals who are engaged in practice for profit are listed in their professional capacity. Professionals working on a salary basis are classified as employees.

(b) Includes'unclassified'

Exhibit "E"

Distribution of Tax Returns of Individuals Reporting Income of $8,000 and Over for Income Tax Purposes, Taxpayers Only, by Occupations, Canada, 1959

OCCUPATION	Returns			Income			Average Total Income Declared on Taxable Returns $8000 & Over
	Taxable Returns $8000 & Over	% of Total Taxable Returns	% of Total Returns	Taxable Returns $8000 & Over	% of Total Income Declared on Taxable Returns only	% of Total Income Declared on all Taxable Returns	
		%	%	$	%	%	$
Total Professionals (a),(d)	22,550	53.4		405,879	82.9		18,000
Medical Doctors & Surgeons	9,771	75.7		186,224	91.9		19,058
Consulting Engineers and Architects	1,383	63.4		28,558	87.3		20,650
Lawyers and Notaries	4,342	62.6		85,816	87.6		19,764
Dentists	2,878	68.2		42,122	86.0		14,636
Accountants	1,849	51.1		31,795	79.6		17,196
Entertainers & Artists	455	22.8		5,992	48.0		13,169
Nurses	3	0.1		163	2.2		54,333
Salesmen	7,803	15.0		99,822	34.4		12,793
Investors	17,920	16.7	10.8	360,015	54.8	49.3	20,090
Total Business Proprietors (d)	28,624	14.9		390,277	37.4		13,635
Proprietors of Financial Businesses	2,864	35.0		52,456	67.7		18,316
Wholesale Traders	2,061	28.2		29,771	56.3		14,445
Manufacturers	2,680	18.5		36,497	43.2		13,618
Retail Traders	11,281	15.7		143,026	35.9		12,678
Proprietors of Construction Businesses	3,774	13.2		49,471	33.3		13,108
Proprietors of Service Businesses	4,110	9.5		55,370	28.6		13,472
Forestry Operators	350	13.9		4,869	35.6		13,911
Public Utility Operators	1,208	8.4		14,443	23.2		11,956

Cont'd

OCCUPATION	Returns			Income			
	Taxable Returns $8000 & Over	% of Total Taxable Returns	% of Total Returns	Taxable Returns $8000 & Over	% of Total Income Declared on Taxable Returns only	% of Total Income Declared on all Taxable Returns	Average Total Income Declared on Taxable Returns $8000 & Over
		%	%	$	%	%	$
Total Employees	141,990	3.8		1,764,602	12.1		12,428
Municipal Government Employees	2,535	2.0		26,247	5.1		10,354
Teachers, Professors, etc. (b)	9,549	6.5		93,018	15.5		9,741
Federal Government Employees	4,860	2.7		50,050	7.2		10,298
Provincial Government Employees	5,050	3.4		52,260	9.3		10,349
Employees of Businesses	118,574	3.9	3.0	1,526,175	12.9		12,871
Employees of Institutions	1,422	1.0		16,852	4.6		11,851
Primary Producers	4,694	6.7		55,668	19.2		11,859
Fishermen	303	7.8		3,260	19.1		10,759
Farmers	4,391	6.7		52,409	19.2		11,936
Pensioners	484	2.0		5,707	7.5		11,791
All Returns (c)	225,360	5.3		3,103,329	17.8		13,771

(a) Only professionals who are engaged in practice for profit are listed in their professional capacity. Professionals working on a salary basis are classified as employees.

(b) Includes non-teaching employees.

(c) Includes estates and unclassified individuals.

(d) Details with the classifications "total professionals" and "total business proprietors" do not add to totals due to the omission of categories designated "other" and "unclassified" respectively in source document.

SOURCE: Canada, Department of National Revenue, 1961 Taxation Statistics (Ottawa: Queen's Printer, 1961), pp. 82-87, Section II, Table 10.

Exhibit "F"

Percentage Distribution of Investment Income, by Sources, Investment Income as a per cent of Total Income Declared by Individuals for Income Tax Purposes, per cent of Total Investment Income Received, Taxable Returns Reporting Income of $8,000 and over as per cent of Total Taxable Returns, Average Total Income Declared, Resident Taxpayers only, by Provinces, Canada, 1959

Province	Investment Income							Investment Income as Per Cent of Total Income	Per Cent of Total Investment Income Received	Taxable Returns of $8,000 & Over as Per Cent of Total Taxable Returns	Average Total Income Declared $
	Dividends	Rental Income	Bond & Bank Interest	Mortgage & Other Interest	Annuity Income	Estate Income	Total				
British Columbia	37.2	13.9	22.9	9.6	2.4	13.9	100	5.4	12.5	5.3	4,265
Ontario	33.8	14.5	23.1	12.9	1.6	14.2	100	4.9	44.0	5.6	4,215
Alberta	32.7	24.6	25.7	10.4	1.6	4.8	100	3.9	5.7	6.0	4,147
Quebec	37.8	21.0	22.3	8.3	0.6	9.9	100	5.0	24.2	5.3	4,048
Manitoba	35.2	19.1	26.0	6.0	1.6	11.2	100	4.3	4.3	4.7	3,938
Saskatchewan	20.8	39.1	28.3	5.2	1.1	5.4	100	5.0	3.8	4.6	3,885
Newfoundland	40.0	13.4	30.4	10.5	0.8	5.2	100	2.6	0.6	3.9	3,838
Nova Scotia	47.5	13.6	25.3	2.9	1.3	9.2	100	4.8	2.5	3.7	3,714
New Brunswick	39.9	10.4	33.7	7.3	1.4	7.2	100	4.4	1.6	3.8	3,638
Prince Edward Island	39.8	9.6	24.4	12.4	2.0	11.6	100	6.1	0.2	4.4	3,445
Other											
Yukon and North West Territories	48.9	6.8	30.7	4.3	7.4	1.9	100	1.0	-	5.2	4,523
Canada	35.1	17.9	23.5	10.3	1.4	11.8	100	4.8	100.0	-	4,113

A.197

Exhibit "G"

Distribution of Investment Income, by Sources, Total Income Declared by Individuals for Tax Purposes, Total Taxable Returns Reporting Income of $8,000 and over, Average Total Income Declared, Taxpayers Only, by Provinces, Canada, 1959

Province	Investment Income							Total Income Declared	Taxable Returns	Taxable Returns $8,000 & Over	Average Total Income Declared
	Dividends	Rental Income	Bond & Bank Interest	Mortgage & Other Interest	Annuity Income	Estate Income	Total				
				$ 000's							
British Columbia	39,179	14,652	24,158	10,155	2,503	14,663	105,310	1,951,069	457,482	24,070	4,265
Ontario	125,364	53,619	85,558	47,805	5,944	52,743	371,033	7,606,213	1,804,731	100,391	4,215
Alberta	15,746	11,856	12,365	5,023	769	2,326	48,085	1,246,281	300,513	17,951	4,147
Quebec	77,371	43,033	45,715	16,917	1,255	20,262	204,553	4,121,049	1,018,021	53,962	4,048
Manitoba	12,689	6,872	9,366	2,438	560	4,030	35,955	836,618	212,465	10,001	3,938
Saskatchewan	6,734	12,673	9,161	1,673	365	1,746	32,352	641,262	165,072	7,629	3,885
Newfoundland	1,894	632	1,439	496	37	245	4,733	182,483	47,547	1,862	3,838
Nova Scotia	9,879	2,830	5,255	600	267	1,922	20,753	429,479	115,649	4,321	3,714
New Brunswick	5,471	1,430	4,619	1,002	196	992	13,710	309,669	85,119	3,199	3,638
Prince Edward Island	816	196	501	255	40	238	2,046	33,380	9,638	428	3,445
Other											
Yukon and North West Territories	158	22	99	14	24	6	323	33,789	7,471	387	4,523
Non-Residents	916	3,041	329	255	12	292	4,845	56,996	18,732	1,159	3,043
Canada	296,217	150,856	198,565	86,633	11,972	99,465	843,708	17,448,288	4,242,490	225,360	4,113

Exhibit "H"

Percentage Distribution of Investment Income, by Sources, Investment Income as per cent of Total Income Declared by Individuals for Income Tax Purposes, per cent of Total Returns Reporting Income of $8,000 and over, Average Total Income Declared, Taxpayers Only, by Size of Center, Canada, 1959

Size of Center (Number of Taxable Returns)	Investment Income							Investment Income as Per Cent of Total Income	Per Cent of Returns $8,000 & Over	Average Total Income Declared $
	Dividends	Rental Income	Bond & Bank Interest	Mortgage & Other Interest	Annuity Income	Estate Income	Total			
Under 4,000 (a)	30.5	17.8	30.0	12.9	1.1	7.7	100.0	3.4	4.0	3,874
4,000- 9,999	31.3	19.7	26.4	12.3	0.9	9.4	100.0	3.7	3.9	3,920
10,000- 24,999	31.5	19.3	25.2	12.1	2.1	9.8	100.0	3.9	4.6	4,109
25,000-109,999	33.6	19.3	22.8	9.8	1.8	12.7	100.0	5.3	6.1	4,240
110,000-604,000 (b)	38.8	16.4	20.8	9.0	1.3	13.7	100.0	6.0	6.4	4,293
Total (a)	35.2	17.6	23.6	10.3	1.4	11.8	100.0	4.8	5.3	4,118

(a) Includes farms, centers over 4,000 not reported separately, the Yukon and North West Territories.

(b) Includes West Vancouver.

Exhibit "I"

Distribution of Investment Income, by Sources, and Total Income Declared by Individuals for Income Tax Purposes, Taxpayers Only, by Size of Center, Canada, 1959

Size of Center (Number of Taxable Returns)	Investment Income							Total Income Declared
	Dividends	Rental Income	Bond & Bank Interest	Mortgage & Other Interest	Annuity Income	Estate Income	Total	
				$ Millions				
All Other Areas (a)	52.8	30.8	51.9	22.3	2.0	13.3	173.0	5,020.2
4,000- 9,999	10.9	6.9	9.2	4.3	0.3	3.3	34.8	950.7
10,000- 24,999	17.5	10.7	14.0	6.7	1.2	5.4	55.5	1,420.5
25,000-109,999	60.2	34.6	40.9	17.6	3.3	22.7	179.2	3,390.6
110,000-604,000 (b)	153.9	64.8	82.4	35.6	5.2	54.5	396.5	6,609.3
Total (a)	295.3	147.9	198.3	86.4	12.0	99.2	839.0	17,391.3

(a) Includes the Yukon and North West Territories. Non-residents are excluded.

(b) Includes West Vancouver.

Exhibit "J"

Percentage Distribution of Investment Income, by Sources, Investment Income as per cent of Total Income Declared by Individuals for Tax Purposes, Average Total Income Declared, Personal Exemptions Claimed by Individuals for Tax Purposes, per cent of Total Returns Reporting Income of $8,000 and over, Taxpayers Only, Ontario and Quebec, by Size of Center, 1959

Size of Center (Number of Taxable Returns)	Province	Investment Income							Investment Income as Per Cent of Total Income
		Dividends	Rental Income	Bond & Bank Interest	Mortgage & Other Interest	Annuity Income	Estate Income	Total	
Under 4,000 (a)	Ontario	30.6	12.8	28.6	17.9	1.5	8.7	100.0	3.9
	Quebec	30.8	18.3	31.8	11.7	0.5	6.9	100.0	2.4
4,000- 9,999	Ontario	30.9	16.5	25.1	12.8	1.1	13.6	100.0	4.7
	Quebec	28.2	27.7	25.9	14.8	0.3	3.2	100.0	2.3
10,000-110,000	Ontario	30.4	17.8	22.5	12.2	1.8	15.3	100.0	4.6
	Quebec	35.5	21.7	25.9	7.7	0.5	8.8	100.0	5.0
Over 500,000 (b)	Ontario	38.4	12.3	20.5	11.0	1.6	16.2	100.0	5.9
	Quebec	39.7	21.2	20.2	7.5	0.7	10.5	100.0	6.4
Total	Ontario	33.8	14.5	23.1	12.9	1.6	14.2	100.0	4.9
	Quebec	37.8	21.0	22.3	8.3	0.6	9.9	100.0	5.0

Cont'd

Exhibit "J" (Cont'd)

Size of Center (Number of Taxable Returns)	Province	Average Income $	Personal Exemptions		Taxable Returns $8,000 & Over as Per Cent of Total Taxable Returns
			Average $	As Per Cent of Total Income	
Under 4,000 (a)	Ontario	4,065	1,813	44.6	4.7
	Quebec	3,735	1,891	50.6	3.7
4,000- 9,999	Ontario	3,948	1,721	43.6	4.4
	Quebec	3,712	1,952	52.6	2.6
10,000-110,000	Ontario	4,271	1,732	40.5	5.5
	Quebec	3,913	1,785	45.6	5.2
Over 500,000 (b)	Ontario	4,318	1,566	36.3	6.5
	Quebec	4,270	1,727	40.4	6.5
Total	Ontario	4,215	1,698	40.3	5.6
	Quebec	4,048	1,794	44.3	5.3

(a) Includes farms and centers greater than 4,000 not reported separately.

(b) Two centers only: Toronto, Ontario and Montreal, Quebec.

APPENDIX VII

The component Exhibits of this Appendix have been prepared from the 1962 New York Stock Exchange Census of Shareholders.

INDEX OF EXHIBITS

Exhibit "A" - Adult Shareowners of Public Corporations by SEX

Exhibit "B" - Total Shareowners of Public Corporations by AGE

Exhibit "C" - Total Shareowners of Public Corporations by INCOME

Exhibit "D" - Adult Shareowners of Public Corporations by EDUCATION

Exhibit "E" - Adult Shareowners of Public Corporations BY OCCUPATION

Exhibit "F" - Total Shareowners of Public Corporations by HOW FIRST ACQUIRED STOCK

Exhibit "G" - Total Xhareowners of Public Corporations by HOW FIRST ACQUIRED STOCK and by SEX

Exhibit "H" - Total Shareowners of Public Corporations by HOW FIRST ACQUIRED STOCK and by AGE

Exhibit "I" - Total Shareowners of Public Corporations by CITY SIZE

Exhibit "A"

1962 NEW YORK STOCK EXCHANGE CENSUS OF SHAREHOLDERS

ADULT SHAREOWNERS IN PUBLIC CORPORATIONS BY SEX

Sex	Individual Shareowners				Estimated Total U.S. Population by Sex*	Per Cent of Each Sex Who Are Shareowners	
	1962		1959				
	Number	Per Cent of Total	Number	Per Cent of Total		1962	1959
Adult Males	7,965,000	49.0%	5,740,000	47.5%	51,086,000	15.6%	11.4%
Adult Females	8,291,000	51.0	6,347,000	52.5	55,629,000	14.9%	11.5%
Sub-Total	16,256,000	100.0%	12,087,000	100.0%	106,715,000	15.2%	11.5%
Not Classified by Sex**	304,000		206,000		6,117,000		
Minors	450,000		197,000		70,380,000		
Total	17,010,000		12,490,000		183,212,000		

* Estimates of total U.S. population used are based primarily on the 1960 U.S. Decennial Census of Population.

** Includes members of the Armed Forces and others living in Alaska, Hawaii, U.S. Territories and Possessions, and U.S. citizens living in foreign countries.

Exhibit "B"

1962 NEW YORK STOCK EXCHANGE CENSUS OF SHAREHOLDERS

TOTAL SHAREOWNERS OF PUBLIC CORPORATIONS BY AGE

	Individual Shareowners				Estimated Total U.S. Population by Age	Per Cent of Each Age Group Who Are Shareowners	
	1962		1959				
Age Group	Number	Per Cent of Total	Number	Per Cent of Total		1962	1959
Under 21 Years	450,000	2.7%	197,000	1.6%	70,489,000	0.6%	0.3%
21 to 34 Years	2,390,000	14.3%	2,444,000	19.9%	30,434,000	7.9%	7.9%
35 to 44 Years	3,528,000	21.1%	2,064,000	16.8%	23,751,000	14.9%	8.7%
45 to 54 Years	4,519,000	27.0%	2,800,000	22.8%	20,393,000	22.2%	13.8%
55 to 64 Years	3,202,000	19.2%	2,666,000	21.7%	15,515,000	20.6%	17.4%
65 Years and Older	2,617,000	15.7%	2,113,000	17.2%	16,515,000	15.8%	13.9%
Sub-Total	16,706,000	100.0%	12,284,000	100.0%	177,095,000	9.4%	7.1%
Not Classified by Age	304,000		206,000		6,117,000		
Total	17,010,000		12,490,000		183,212,000		

Exhibit "C"

Appendix VII

1962 NEW YORK STOCK EXCHANGE CENSUS OF SHAREHOLDERS

TOTAL SHAREOWNERS OF PUBLIC CORPORATIONS BY INCOME

Reported Household Income*	Individual Shareowners 1962 Number	1962 Per Cent of Total	1959 Number	1959 Per Cent of Total	Estimated Total U.S. Population by Income	Percent of Each Income Group Who Are Shareowners 1962	1959
Under $3,000	1,002,000	6.0%	1,106,000	9.0%	39,492,000	2.5%	2.5%
$ 3,000-$ 5,000	2,072,000	12.4%	2,469,000	20.1%	35,596,000	5.8%	5.6%
$ 5,000-$ 7,500	3,592,000	21.5%	3,145,000	25.6%	45,336,000	7.9%	6.2%
$ 7,500-$10,000	3,959,000	23.7%	2,776,000	22.6%	31,346,000	12.6%	14.0%
$10,000-$15,000	3,258,000	19.5%	1,769,000	14.4%	18,418,000	17.7%	15.7%
$15,000-$25,000	2,021,000	12.1%	700,000	5.7%	5,136,000	39.3%	26.9%
$25,000 and Over	802,000	4.8%	319,000	2.6%	1,771,000	45.3%	36.8%
Sub-Total	16,706,000	100.0%	12,284,000	100.0%	177,095,000	9.4%	7.1%
Not Classified by Income	304,000		206,000		6,117,000		
Total	17,010,000		12,490,000		183,212,000		

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* Based on 1961 income before taxes. "Household Income" is the total combined income of all members of the household. If, for example, a shareowner had $8,000 income and a non-shareowner member of the same household had $4,000, the shareowner's household income is $12,000. On the other hand, if both are shareowners, each is considered to have $12,000 household income.

Exhibit "D"

Appendix VII

1962 NEW YORK STOCK EXCHANGE CENSUS OF SHAREHOLDERS

ADULT SHAREOWNERS OF PUBLIC CORPORATIONS BY EDUCATION

Last Year of School Completed	Individual Shareowners 1962 Number	1962 Per Cent of Total	1959 Number	1959 Per Cent of Total	Estimated Total U.S. Population by Education	Per Cent of Each Education Group Who Are Shareowners 1962	1959
3 Years High School or Less	3,007,000	18.5%	2,804,000	23.2%	58,160,000	5.2%	4.9%
4 Years High School	4,828,000	29.7%	3,130,000	25.9%	30,520,000	15.8%	10.4%
1 to 3 Years College	3,284,000	20.2%	2,587,000	21.4%	9,604,000	34.2%	27.3%
4 Years College or More	5,137,000	31.6%	3,566,000	29.5%	8,431,000	60.9%	42.8%
Sub-Total	16,256,000	100.0%	12,087,000	100.0%	106,715,000	15.3%	11.5%
Minors	450,000		197,000		70,380,000		
Others Not Classified by Education	304,000		206,000		6,117,000		
Total	17,010,000		12,490,000		183,212,000		

Exhibit "E"

1962 NEW YORK STOCK EXCHANGE CENSUS OF SHAREHOLDERS

ADULT SHAREOWNERS OF PUBLIC CORPORATIONS BY OCCUPATION

OCCUPATION	Individual Shareowners 1962 Number	Individual Shareowners 1962 Per Cent of Total	Individual Shareowners 1959 Number	Individual Shareowners 1959 Per Cent of Total	Estimated Total U.S. Population by Occupation	Per Cent of Each Occupation who Are Shareowners 1962	Per Cent of Each Occupation who Are Shareowners 1959
Clerical & Sales	2,959,000	18.2%	1,801,000	14.9%	12,699,000	23.3%	13.1%
Professional & Semi-Professional	2,682,000	16.5%	1,934,000	16.0%	7,470,000	35.9%	26.6%
Proprietors, Managers & Officials	2,276,000	14.0%	1,982,000	16.4%	7,043,000	32.3%	28.5%
Craftsmen & Foremen	927,000	5.7%	580,000	4.8%	8,751,000	10.6%	6.8%
Operatives & Laborers	439,000	2.7%	411,000	3.4%	15,367,000	2.9%	2.7%
Service Workers	423,000	2.6%	326,000	2.7%	7,577,000	5.6%	4.1%
Farmers & Farm Laborers	65,000	0.4%	73,000	0.6%	4,695,000	1.4%	1.6%
Housewives & Non-Employed Adult Females	5,462,000	33.6%	4,000,000	33.1%	36,176,000	15.1%	11.6%
Non-Employed Adult Males (Including retired persons)	1,023,000	6.3%	980,000	8.1%	6,937,000	14.7%	14.1%
Sub-Total	16,256,000	100.0%	12,087,000	100.0%	106,715,000	15.2%	11.5%
Minors	450,000		197,000		70,380,000		
Others Not Classified by Occupation	304,000		206,000		6,117,000		
Total	17,010,000		12,490,000		183,212,000		

Exhibit "F"

1962 NEW YORK STOCK EXCHANGE CENSUS OF SHAREHOLDERS

TOTAL SHAREOWNERS OF PUBLIC CORPORATIONS BY HOW FIRST ACQUIRED STOCK

	Individual Shareowners			
	1962		1959	
How First Acquired Stock	Number	Per Cent of Total	Number	Per Cent of Total
Bought Through Broker	9,556,000	57.2%	6,080,000	49.5%
Through Company Worked For	2,773,000	16.6%	2,592,000	21.1%
Bought Through Bank	1,320,000	7.9%	1,585,000	12.9%
Gift or Inheritance	2,255,000	13.5%	1,560,000	12.7%
Other	568,000	3.4%	381,000	3.1%
Don't Remember	234,000	1.4%	86,000	0.7%
Sub-Total	16,706,000	100.0%	12,284,000	100.0%
Not Classified by How First Acquired Stock	304,000		206,000	
Total	17,010,000		12,490,000	

Exhibit "G"

1962 NEW YORK STOCK EXCHANGE CENSUS OF SHAREHOLDERS

TOTAL SHAREOWNERS OF PUBLIC CORPORATIONS
by HOW FIRST ACQUIRED STOCK and by SEX

	MALES		FEMALES	
	Number	Per Cent of Total	Number	Per Cent of Total
Bought Through Broker	5,133,000	62.6%	4,423,000	52.0%
Through Company Worked For	1,443,000	17.6%	1,336,000	15.7%
Bought Through Bank	599,000	7.3%	714,000	8.4%
Gift or Inheritance	713,000	8.7%	1,531,000	18.0%
Other	246,000	3.0%	332,000	3.9%
Don't Remember	66,000	0.8%	170,000	2.0%
Sub-Total	8,200,000	100.0%	8,506,000	100.0%
Not Classified by HOW FIRST ACQUIRED STOCK		304,000		
TOTAL		17,010,000		

Exhibit "H"

Appendix VII

1962 NEW YORK STOCK EXCHANGE CENSUS OF SHAREHOLDERS

TOTAL SHAREOWNERS OF PUBLIC CORPORATIONS
by HOW FIRST ACQUIRED STOCK and by AGE

	UNDER 45 YEARS OF AGE		45-54 YEARS OF AGE		55 YEARS OF AGE AND OLDER	
HOW FIRST ACQUIRED STOCK	Number	Per Cent of Total	Number	Per Cent of Total	Number	Per Cent of Total
Bought Through Broker	3,553,000	55.8%	2,720,000	60.2%	3,276.000	56.3%
Through Company Worked For	1,388,000	21.8%	651,000	14.4%	750,000	12.9%
Bought Through Bank	261,000	4.1%	452,000	10.0%	594,000	10.2%
Gift or Inheritance	879,000	13.8%	583,000	12.9%	791,000	13.6%
Other	217,000	3.4%	81,000	1.8%	274,000	4.7%
Don't Remember	70,000	1.1%	32,000	0.7%	134,000	2.3%
Sub-Total	6,368,000	100.0%	4,519.000	100.0%	5,819,000	100.0%
Not Classified by HOW FIRST ACQUIRED STOCK			304,000			
TOTAL			17,010,000			

Exhibit "I"

1962 NEW YORK STOCK EXCHANGE CENSUS OF SHAREHOLDERS

TOTAL SHAREOWNERS OF PUBLIC CORPORATIONS BY CITY SIZE

	Individual Shareowners				Estimated Total U.S. Population	Per Cent of Population in Each City Size Who Are Shareowners	
	1962		1959				
City Size	Number	Per Cent of Total	Number	Per Cent of Total	by City Size	1962	1959
500,000 and over	3,728,000	22.1%	3,370,000	27.2%	28,595,000	13.0%	10.5%
100,000 to 500,000	2,935,000	17.4%	2,063,000	16.7%	22,418,000	13.1%	9.2%
25,000 to 100,000	3,660,000	21.7%	2,357,000	19.0%	28,787,000	12.7%	9.1%
2,500 to 25,000	4,351,000	25.8%	2,429,000	19.6%	34,928,000	12.5%/	7.0%
Rural Areas (Farm and Non-Farm)	2,193,000	13.0%	2,172,000	17.5%	64,595,000	3.4%	3.6%
Sub-Total	16,867,000	100.0%	12,391,000	100.0%	179,323,000	9.4%	7.0%
U.S. Territories & Possessions	5,000		3,000		2,514,000		
Foreign Countries -- U.S. Citizens Living Abroad *	138,000		96,000		1,375,000		
TOTAL	17,010,000		12,490,000		183,212,000		

* Includes Armed Forces Overseas

APPENDIX VIII

The component Exhibits of this Appendix were prepared for the Montreal Stock Exchange by the Dominion Bureau of Statistics from data collected for the Department's 1958 Survey of Incomes, Liquid Assets, and Indebtedness of Non-Farm Families in Canada.

Index of Exhibits

Exhibit "A" - Percentage Distribution of Families and Unattached Individuals for the Province of Quebec by Savings Deposit Holdings (1), Spring 1959, and by Income Groups

Exhibit "B" - Percentage Distribution of Families and Unattached Individuals for the Province of Quebec by Deposit Holdings (1), Spring 1959, and by Income Groups

Exhibit "C" - Percentage Distribution of Families and Unattached Individuals for the Province of Quebec by Canada Savings Bonds Holdings, Spring 1959, and by Income Groups

Exhibit "D" - Percentage Distribution of Families and Unattached Individuals for the Province of Quebec by Bond Holdings (1), Spring 1959, and by Income Groups

Exhibit "E" - Percentage Distribution of Families and Unattached Individuals for the Province of Quebec by Stock Holdings (1), Spring 1959, and by Income Groups

Exhibit "A"

Appendix VIII

Percentage Distribution of Families and Unattached Individuals for the Province of Quebec by Savings Deposits Holdings(1), Spring 1959, and by Income Groups

Savings deposits group	1958 Income Group								
	Under $1,000	$1,000-1,999	$2,000-2,999	$3,000-3,999	$4,000-4,999	$5,000-6,999	$7,000-9,999	$10,000 and over.	All families and unattached individuals
					percent				
No deposits	71.9	70.7	64.0	55.2	43.2	40.6	34.2	32.2	52.3
Under $250	7.7	7.3	14.2	20.4	17.6	13.6	15.7	7.8	14.4
$ 250 - 499	4.1	5.3	4.0	6.9	9.3	13.0	9.5	9.5	7.8
$ 500 - 999	4.8	6.4	8.8	9.9	11.8	10.1	11.4	8.8	9.4
$ 1,000 - 1,999	6.6	3.8	4.4	3.1	9.6	11.0	12.0	13.8	7.3
$ 2,000 - 4,999	3.8	6.5	3.5	4.2	5.9	7.4	12.7	10.6	6.1
$ 5,000 - 9,999	1.0	-	0.5	0.4	2.6	3.2	4.5	9.5	2.0
$10,000 and over	-	-	0.5	-	-	1.0	-	7.8	0.6
Totals	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average holding $	321	278	355	270	590	820	875	4,532	693
Median holding $	0	0	0	0	97	173	253	528	0
Average holding - Holders only $	1,146	949	987	603	1,040	1,382	1,330	6,680	1,453

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(1) Savings accounts in chartered banks

This table is comparable to table 23 in D.B.S. publication 13-514.

Exhibit "B"

Appendix VIII

Percentage Distribution of Families and Unattached Individuals for the Province of Quebec by Deposit Holdings(1), Spring 1959, and by Income Groups

Deposits group		1958 Income Group							
		Under $1,000	$1,000-1,999	$2,000-2,999	$3,000-3,999	$4,000-4,999	$5,000-6,999	$7,000-9,999	$10,000 and over	All families and unattached individuals
						percent				
No deposits		63.3	62.2	48.0	40.8	25.6	21.7	15.3	9.2	36.6
Under $250		8.7	12.6	22.9	26.6	20.7	18.6	18.9	10.6	19.5
$ 250 - 499		5.9	5.3	7.7	10.4	14.2	13.0	11.2	8.5	10.1
$ 500 - 999		8.7	7.8	10.9	10.7	15.7	15.3	14.6	12.4	12.3
$ 1,000 - 1,999		7.4	5.1	4.8	6.1	14.3	14.9	16.6	18.7	10.1
$ 2,000 - 4,999		4.1	7.0	4.3	5.0	7.0	11.5	17.8	15.9	8.1
$ 5,000 - 9,999		2.0	-	0.8	0.4	1.9	4.0	5.6	15.9	2.6
$10,000 and over		-	-	0.5	-	0.7	1.0	-	8.8	0.8
Totals		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average holding	$	447	328	446	347	762	1,100	1,227	5,310	880
Median holding	$	0	0	22	86	315	436	657	1,497	171
Average holding - Holders only	$	1,218	869	858	587	1,024	1,405	1,449	5,847	1,386

(1) Deposits include current and savings accounts in chartered banks and deposits in other institutions such as trust companies.

This table is comparable to table 22 in D.B.S. publication 13-514

Exhibit "C"

Percentage Distribution of Families and Unattached Individuals for the Province of Quebec by Canada Savings Bonds Holdings, Spring 1959, and by Income Groups

Savings bonds group	1958 Income Group								
	Under $1,000	$1,000- 1,999	$2,000- 2,999	$3,000- 3,999	$4,000- 4,999	$5,000- 6,999	$7,000- 9,999	$10,000 and over	All families and unattached individuals
					percent				
No savings bonds	94.4	95.7	89.7	90.1	81.3	77.4	68.4	58.7	84.0
Under $250	3.3	1.1	3.2	3.4	6.8	7.3	6.2	5.7	4.7
$ 250 - 499	-	1.1	1.4	2.5	2.5	2.1	9.2	0.7	2.4
$ 500 - 999	-	0.6	3.6	1.9	3.6	5.3	6.9	6.4	3.4
$ 1,000 - 1,999	0.3	-	0.8	1.2	2.4	4.1	3.2	9.5	2.2
$ 2,000 - 4,999	2.0	1.4	1.3	0.5	2.4	3.8	5.4	6.4	2.4
$ 5,000 - 9,999	-	-	-	0.4	-	-	0.6	6.4	0.4
$10,000 and over	-	-	-	-	1.1	-	-	6.4	0.5
Totals	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average holding $	73	47	87	63	334	208	299	2,927	292
Median holding $	0	0	0	0	0	0	0	0	0
Average holding - Holders only $	1,305	1,093	846	633	1,786	921	946	7,080	1,832

This table is comparable to table 25 in D.B.S. publication 13-514

Exhibit "D"

Percentage Distribution of Families and Unattached Individuals for the Province of Quebec by Bond Holdings (1), Spring 1959, and by Income Groups

Bonds group		1958 Income Group								
		Under $1,000.	$1,000-1,999	$2,000-2,999	$3,000-3,999	$4,000-4,999	$5,000-6,999	$7,000-9,999	$10,00 and over	All families and unattached individuals
						percent				
No Bonds		94.4	95.1	88.9	89.6	79.6	75.7	64.9	53.4	82.7
Under $250		3.3	1.1	2.5	3.9	7.2	8.0	5.2	5.7	4.7
$ 250 - 499		-	1.1	1.4	2.5	2.5	2.1	11.4	0.7	2.6
$ 500 - 999		-	0.6	3.6	1.9	3.6	5.3	6.7	5.3	3.3
$ 1,000 - 1,999		0.3	-	0.7	1.2	3.0	4.7	4.1	8.5	2.4
$ 2,000 - 4,999		2.0	2.1	1.3	0.5	2.4	3.0	5.4	4.2	2.2
$ 5,000 - 9,999		-	-	1.6	0.4	0.6	0.8	2.4	8.8	1.2
$10,000 and over		-	-	-	-	1.1	0.4	-	13.4	0.9
Totals		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average Holding	$	73	66	177	63	382	415	446	4,919	463
Median Holding	$	0	0	0	0	0	0	0	0	0
Average Holding - Holders Only	$	1,305	1,339	1,590	606	1,874	1,708	1,273	10,546	2,670

(1) This comprises holdings of Canada Savings Bonds, other Government of Canada bonds, plus other bond holdings such as corporate, provincial and municipal bonds.

This Table is comparable to Table 24 in D.B.S. publication 13-514.

Appendix VIII

Exhibit "E"

Percentage Distribution of Families and Unattached Individuals for the Province of Quebec by Stock Holdings(1), Spring 1959, and by Income Groups

Stock holding group	1958 Income Group											
	Under $1,000	$1,000-1,999	$2,000-2,999	$3,000-3,999	$4,000-4,999	$5,000-6,999	$7,000-9,999	$10,000 and over	All families and unattached individuals	Average Income	Average liquid assets	Average selected financial assets
	percent									$	$	$
No stock holdings	98.0	99.4	98.2	99.1	95.4	92.8	84.1	70.7	94.6	4,118	943	1,147
Under $1,000	1.0	-	0.6	0.7	3.9	3.4	5.4	5.7	2.2	6,445	2,988	2,988
$ 1,000 - 4,999	1.0	0.6	1.2	0.2	0.7	3.1	6.9	6.0	1.9	6,904	6,917	7,870
$ 5,000 - 9,999	-	-	-	-	-	-	1.3	6.7	0.4	12,369 ☆	3,983 ☆	4,133 ☆
$10,000 - 24,999	-	-	-	-	-	0.3	1.5	4.2	0.4	9,753 ☆	8,642 ☆	9,187 ☆
$25,000 and over	-	-	-	-	-	0.4	0.9	6.7	0.5	50,570 ☆	43,701 ☆	43,701 ☆
Totals	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	4,496	1,343	1,556

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(1) This includes investments in stocks that are publicly traded through stock exchanges but not stock holdings in private corporations.

☆ These averages based on very few cases.

This table is comparable to table 27 in D.B.S. publication 13-514.

APPENDIX IX

The component Exhibits of this Appendix have been prepared from the results of the 1st Annual Transaction STudy of the Montreal and Canadian Stock Exchanges. The data submitted represents the total transactions recorded on the 4th, 15th and 27th of June, 1962.

Index of Exhibits

Exhibit "A" - Total Share Transactions Recorded by Geographic Code for Members, Institutions and Public Individuals, June 1962.

Exhibit "B" - Total Share Transactions Recorded by Age, Sex, and Joint Accounts for Public Individuals, June 1962.

Exhibit "C" - Total Margin Accounts Analyzed for Public Individuals Recorded by Age, June 1962.

Exhibit "D" - Total Share Transactions for Public Individuals Recorded by Investment Motivation, June 1962.

Exhibit "E" - Total Share Transactions Recorded by Type of Institution, June 1962.

Exhibit "A"

Appendix IX

Total Share Transactions Recorded by Geographic Code for Members, Institutions and Public Individuals, June 1962

Geographic Code	Individual	Individual (%)	Institute	Institute (%)	Unknown	Per Cent
Alberta	26,161	2.03	710	.14		1.50
British Columbia	24,536	1.91	5,658	1.12		1.69
Manitoba	4,829	0.38	5,572	1.10		.58
New Brunswick	20,519	1.60	2,510	.50		1.29
Newfoundland	355	0.02	200	.04		.03
Nova Scotia	39,254	3.10	5,720	1.13		2.51
Ontario	391,451	30.50	126,452	25.02		28.96
P.E.I.	2,445	0.19	950	.19		.19
Quebec	683,970	53.30	305,500	60.43	130	55.33
Saskatchewan	2,166	0.17	2,825	.56		.28
U.S.	82,090	6.40	17,705	3.50		5.58
U.K.	450	0.04	10,315	2.04		.60
Others	4,650	0.36	21,387	4.23	—	1.46
Totals	1,282,876	100.00	505,504	100.00	130	100.00

Total Transactions recorded above	1,788,501
Members' Transactions recorded above	759,221
Total Transactions	2,547,722

Percentage of Total Transactions

Individual	Institute	Montreal and Canadian Stock Exchange Members
50.4%	19.8%	29.8%

Exhibit "B"

Appendix IX

Total Share Transactions Recorded by Age, Sex, and Joint Accounts for Public Individuals, June 1962

Age	Male	%	Female	%	Jt. Accts.	%	Total	%
Under 25	8,429	69.47	3,705	30.53	-	-	12,134	100.00
25 to 34	84,766	82.82	17,484	17.08	100	0.10	102,350	100.00
35 to 44	271,918	82.68	55,263	16.80	1,700	0.52	328,881	100.00
45 to 54	275,807	81.82	60,435	17.93	850	0.15	337,092	100.00
55 to 64	133,010	78.75	34,638	20.51	1,260	0.74	168,908	100.00
65 and over	45,764	79.10	3,295	5.70	8,800	15.20	57,859	100.00
Don't Know	238,342	86.47	28,643	10.39	8,667	3.14	275,652	100.00
Totals	1,058,036	82.5	203,463	15.9	21,377	1.6	1,282,876	100.00

Exhibit "C"

Appendix IX

Total Margin Accounts Analyzed for Public Individuals Recorded by Age June 1962

Age Code	Margin Volume	Total Volume	% of Total Volume
Under 25	2,300	12,134	19.0 %
25 to 34	25,480	102,350	24.9
35 to 44	41,387	328,881	12.6
45 to 54	90,993	337,092	27.0
55 to 64	38,419	168,908	22.7
65 and over	14,000	57,859	24.2
Don't Know	44,863	275,652	--
Totals	257,442	1,282,876	20.0 %

Exhibit "D"

Appendix IX

Total Share Transactions for Public Individuals Recorded by Investment Motivations, June 1962

Trade or Investment	Male	Female	Jt. Accts.	Total	Per Cent
Under 30 days	229,844	59,739	8,100	297,683	29.1%
1 to 6 months	302,165	57,468	6,225	365,858	35.7
Over 6 months	308,651	48,538	3,990	361,179	35.2
			S/Total	1,024,720	100.0
Don't Know	217,376	37,718	3,062	258,156	
Totals	1,058,036	203,463	21,377	1,282,876	

Exhibit "E"

Appendix IX

Total Share Transactions Recorded by Type of Institution, June 1962

In Name Of	Volume	%
Banks & Trust Co's	174,382	34.5
Insurance Co's	12,180	2.4
Mutual Funds	29,028	5.7
All Other	289,914	57.4
Sub	505,504	
Total		100.0

APPENDIX X

The component Exhibits of this Appendix have been prepared from the Results of the 11th Public Transaction Study conducted by the New York Stock Exchange on the 13th of September, 1961.

Index of Exhibits

Exhibit "A" - Percentage Distribution of Shares Bought and Sold in Round and Odd Lots on the NYSE.

Exhibit "B" - Percentage Distribution of Shares Bought and Sold in Round and Odd Lots for Public Individuals by Investment Motivation.

Exhibit "C" - Percentage Distribution of Shares Bought and Sold in Round and Odd Lots for Public Individuals by Income Groups.

Exhibit "D" - Percentage Distribution of Shares Bought and Sold in Round and Odd Lots for Public Individuals by Sex.

Exhibit "E" - Percentage Distribution of Shares Bought and Sold in Round and Odd Lots for Public Individuals by Age.

Exhibit "F" - Margin Transactions of Public Individuals as a Per Cent of Total Share Volume.

Exhibit "A"

Appendix X

Percentage Distribution of Shares Bought and Sold in Round and Odd Lots on the NYSE

Period[1]	MAJOR SOURCES Public Individuals	 Institutions & Intermediaries	 NYSE Members
September 1961	51.4%	26.2%	22.4%
September 1960	52.6	24.3	23.1
June 1959	53.5	22.8	23.7
September 1958	55.8	22.9	21.3
October 1957	54.3	23.3	22.4
March 1956	58.9	20.1	21.0
June 1955	59.2	19.4	21.3
December 1954	62.3	17.5	20.2
March 1954	56.4	23.5	20.1
March 1953	61.4	19.3	19.3
September 1952	57.0	24.6	18.4

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[1] June 1959, September 1960 and September 1961 are based on transactions for one day. The previous eight studies are based on two days. The September 1958 data are projections from a 10% sample.

Exhibit "B"

Appendix X

Percentage Distribution of Shares Bought and Sold in Round and Odd Lots for Public Individuals by Investment Motivation

	INVESTMENT MOTIVATION		
Period	Trading Transactions ("30-Day")	Short-Term Investment (1 to 6 Months)	Long-Term Investment (Over 6 Months)
September 1961	9.5%	28.5%	62.0%
September 1960	14.2	25.0	60.8
June 1959	9.3	26.2	64.5
September 1958	16.1	29.0	54.9
October 1957	13.6	19.7	66.7
March 1956	13.0	26.6	60.4
June 1955	14.5	28.5	57.0
December 1954	16.6	27.8	55.6
March 1954	11.5	21.1	67.4
March 1953	11.6	23.1	65.3
September 1952	7.5	19.0	73.5

Exhibit "C"

Appendix X

Percentage Distribution of Shares Bought and Sold in Round and Odd Lots for Public Individuals by Income Groups

	INCOME GROUPS			
Period	Under $5,000	$5,000-$10,000	$10,000-$25,000	$25,000-& Over
September 1961	2.7%	19.5%	41.9%	35.9%
September 1960	3.0	20.3	39.5	37.2
June 1959	3.6	22.1	39.8	34.5
September 1958	N.A.	N.A.	N.A.	N.A.
October 1957	4.3	25.4	38.4	31.9
March 1956	5.1	25.7	36.2	33.0
June 1955	5.9	25.5	36.0	32.6
December 1954	7.0	26.5	33.8	32.7
March 1954	8.0	26.6	34.0	31.4
March 1953	8.4	26.1	34.1	31.4
September 1952	8.9	26.1	31.1	33.9

N.A. - Not available

Exhibit "D"

Appendix X

Percentage Distribution of Shares Bought and Sold in Round and Odd Lots for Public Individuals by Sex

	SEX	
Period	Male	Female
September 1961	71.7%	28.3%
September 1960	73.9	26.1
June 1959	75.2	24.8
September 1958	N.A.	N.A.
October 1957	79.3	20.7
March 1956	76.3	23.7
June 1955	76.7	23.3
December 1954	78.0	22.0
March 1954	77.0	23.0
March 1953	76.7	23.3
September 1952	74.8	25.2

N.A. - Not Available

Exhibit "E"

Appendix X

Percentage Distribution of Shares Bought and Sold in Round and Odd Lots for Public Individuals by Age

	AGE GROUP			
Period	Under 25	25-44	45-64	65 & Over
September 1961	1.4%	29.4%	54.4%	14.8%
September 1960	1.2	29.6	56.8	12.4
June 1959	1.0	26.6	58.6	13.8
September 1958	N.A.	N.A.	N.A.	N.A.
October 1957	1.1	23.2	60.0	15.7

SIX PRIOR STUDIES

	Under 40	40-59	60 & Over
March 1956	16.0%	61.6%	22.4%
June 1955	13.6	61.7	24.7
December 1954	12.5	64.3	23.2
March 1954	13.4	61.8	24.8
March 1953	12.8	64.8	22.4
September 1952	13.7	62.9	23.4

N.A. - Not Available

Exhibit "F"

Appendix X

Margin Transactions of Public Individuals as a Per Cent of Total Share Volume

Period	Percent	Federal Reserve Initial Margin Requirements
September 1961	16.3%	70%
September 1960	17.3	70
June 1959	17.6	90
September 1958	21.8	70
October 1957	18.4	70
March 1956	21.7	70
June 1955	23.8	70
December 1954	27.0e	50
March 1954	18.2e	50
March 1953	21.9e	50
September 1952	13.8e	75

e - Estimated

APPENDIX XI

Expenses of Offering Canadian Securities in the United States with Comparative Average Expenses for United States Securities

The component Exhibits of this Appendix have been prepared from the United States Securities and Exchange Commission studies of the cost of flotation of corporate securities 1951-1955 and registration statements becoming effective between January 1, 1959 to September 30, 1960.

Index of Exhibits

Exhibit 1 - Debt Offerings
Exhibit 2 - Industrial Stock Offerings
Exhibit 3 - Mining Stock Offerings
Exhibit 4 - Exchange Offers of Stock
Exhibit 5- Stock for Property, Conversions, Options and Warrants
Exhibit 6 - Footnotes

EXHIBIT I

Debt Offerings.

Company	S.E.C. example of average U.S. industrial offering in 1957	Imperial Oil Investment Corporation Limited.	Home Oil Company Limited.
Security	Bonds	Coll. Tr. Bonds	Conv. Subord. Debentures
Offering Price	$ 15,500,000	$ 15,000,000	$ 20,000,000 (1)
Legal Fees	16,700	38,000	40,000
Accounting Fees	5,300	12,000	11,000
Engineering Fees	9,100		4,000
Printing and Engraving	30,500	28,000	75,000
Trustees) Registrars) Transfer Agents)	16,300	9,000	19,000
S.E.C. Fees	1,600	1,530	2,140
Blue Sky Law Fees and Expenses	4,500	5,000	11,000
Federal Tax	16,900	16,500	
Miscellaneous	9,900	4,970	65,000 (2)
Total	$ 110,800	$ 115,000	$ 227,140
%	.72%	.77%	1.14%
Underwriting	135,000	262,500	550,000
%	.87%	1.75%	2.75%
Total	$ 245,800	$ 377,500	$ 777,140
	1.59%	2.52%	3.89%

EXHIBIT 2

Industrial Stock Offerings.

Company	S.E.C. Example of average U.S. industrial offering in 1957	Teleflex Limited	Supercrete Limited	New Pacific Coal and Oils Limited	Cold Lake Pipe Line Company Limited.
Security	Common	Common 67,000 sh.	Common 300,000 sh.	Common 1,265,000 sh.	Common 200,000 sh.
Offering Price	$ 2,000,000	$ 1,373,500	$ 2,212,500	$ 1,000,000(4)	$ 700,000(4)
Legal Fees)	14,600	25,500	55,000	10,000	10,000
Accounting Fees)	5,600		15,000	3,500	5,000
Engineering Fees	7,200			5,000	5,000
Printing and Engraving	10,100	7,740	9,000		10,000
Trustees) Registrars) Transfer Agents)	1,700	350		3,200	1,500
S.E.C. Fees	200	150	270	125	180
Blue Sky Law Fees and Expenses	2,600	600	4,730		
Federal Tax	800				
Miscellaneous	5,300	2,960	1,000	1,500	2,500
Total	$ 48,100	$ 37,300(3)	$ 85,000	$ 23,325	$ 34,180
%	2.41%	2.72%	3.84%	2.33%(5)	4.88%(6)
Underwriting	210,000	110,550	221,250		
%	10.50%	8.05%	10%		
Total	$ 258,100	$ 147,850	306,250		
%	12.91%	10.76%	13.84%		

EXHIBIT 3

Mining Stock Offerings

Company	Can-Fer Mines Limited	Northshore Goldfields Limited	Anglo-Murmont Mining Corp. Limited	Langis Silver Cobalt Mining Company Ltd.
Security	Common 300,000 sh(7)	Common 207,800 sh.	Common 250,000 sh.	Common 1,300,000 sh.
Offering Price	$ 375,000	$1,039,000	$ 110,000	$ 1,300.000(10)
Legal Fees	20,000	22,500	5,000	12,000
Accounting Fees	1,500	4,800	250	2,500
Engineering Fees		500		200(11)
Printing & Engraving	7,000	2,500	750	
Trustees) Registrars) Transfer Agents)		1,125	250	
S.E.C. Fees	193	104	25	130
Blue Sky Law Fees and expenses	1,500	5,615		
Federal Tax			50	
Miscellaneous	4,800	2,000	1,008	450
Total	$ 35,000(7)	$ 39,144	$ 7,333	$ 15,280
%		3.77%	6.677%(9)	1.18%(10)
Underwriting	66,000	155,850(8)		
%	17.6%	15%(8)		
Total	$ 101,000			
%				

EXHIBIT 4

Exchange Offers of Stock.

Company	Canadian Husky Oil Limited	Powell River Company Limited
Security	Common 3,078,239 sh.	Common 4,500,000 sh.
Offering Price	$ 1,436,000(12)	$ 83,430,000(12)
Legal Fees	50,000	150,000
Accounting Fees	17,000	100,000
Engineering Fees	62,500	
Printing & Engraving	58,500	25,000
Trustees) Registrars) Transfer Agents)	35,756	120,000
S.E.C. Fees	2,144	8,343
Blue Sky Law Fees and expenses	1,500	8,000
Federal Tax	7,000	
Miscellaneous	37,000	38,657
Total	$ 271,400	$ 450,000
%	1.27%(13)	54%(14)

Appendix XI.

EXHIBIT 5

Stock for Property, Conversions, Options, and Warrants.

Company	Gridoil Freehold Leases Limited	Algom Uranium Mines Limited	Campbell Chibougamau Mines Limited	Peruvian Oils and Minerals Limited.
Security	Common 564,776 sh.	Common 822,010. sh.	Common 319,542 sh.	Common 700,000 sh.
Offering Price	\$ 2,823,880(12)	\$ 9,042,110	\$ 1,349,300(12)	\$ 1,000,000(12)
Legal Fees	20,000	10,000	7,500	9,300
Accounting Fees	10,000		1,500	4,000
Engineering Fees	5,000			
Printing & Engraving	6,000	9,000	2,000	5,500
Trustees)				
Registrars)				1,200
Transfer Agents)				
S.E.C. Fees	282	904	148	100
Federal Tax				
Miscellaneous	8,718	500	1,000	900
Total	\$ 50,000	\$ 20,404	\$ 12,148	\$ 21,000
%	1.77%	23%	.90%	2.10%

EXHIBIT 6

Footnotes

(1) Half the offering was made in Canada. Figures are adjusted to avoid echange rate complications.

(2) Including $50,000 reimbursement of expenses of Trans-Canada Pipe Lines Limited.

(3) Approximately one-third of these expenses were borne by a selling shareholder.

(4) Estimated on basis of market price.

(5) Brokers, dealers and direct purchasers were granted a discount of 10 per cent in cash and 15 per cent bonus in stock.

(6) Best efforts 15 per cent commission on stock sold by brokers and dealers plus 7½ per cent on stock sold direct by company.

(7) An additional 491,067 shares were registered for purposes other than the public offering. The expenses other than underwriting expenses applied to the entire 791,067 shares.

(8) Best efforts underwriting, with company selling directly at no commission $155,850 is maximum payable.

(9) Stock sold by company personnel at maximum 25 per cent commission.

(10) Taken down under option and registered for reoffering to the public.

(11) Printing paid for by underwriter-optionee.

(12) Value estimated for purposes of fee calculation.

(13) Commissions for solicitation of exchange estimated at $35,000.

(14) Maximum commissions for solicitation of exchanges estimated at $350,000. Fee for financial advice by investment dealer - $200,000.

APPENDIX XII

The Montreal Stock Exchange has conducted a two-year campaign designed to encourage American parent companies to sell a part of the equity of their Canadian subsidiaries to the Canadian investing public. The response has been overwhelmingly in the negative and the following excerpts from correspondence are representative. Anonymity has been preserved.

EXCERPTS

"We have from time-to-time discussed this possibility but, as a matter of policy, have never decided to do so. We have some sixteen foreign subsidiaries all of which with but one exception are wholly-owned. The one exception has created some operating difficulties so we are inclined to continue as we have in the past."

. . . . .

"As you know, we have given this matter serious and careful consideration a number of times, but in each instance have concluded that the reasons advanced for public listing were not sufficiently compelling to warrant an affirmative decision. I trust you understand this statement when I repeat that due to the peculiar nature of our business I seriously doubt we would realize much, if any, commercial advantages in so far as better public relations are concerned.

Also I fail to see where we would benefit in our financial or managerial position since at the present time we do not need the money to operate the Canadian company and the management group, as well as all of our active employees, are Canadian."

. . . . .

"(   ) owns more than 98 per cent of the outstanding stock of our Canadian subsidiary, (   ), and therefore we do not believe that we would be interested in having (   ) stock listed at this time".

. . . . .

"I believe we can understand your point of view and there is certainly some merit to your arguments. At the present time, however, I do not believe we would consider disposing of any of the stock of our subsidiaries in Canada".

. . . . .

"We recognize that there are some advantages in such a step, but it is our considered opinion that it would not be in the best long-term interests of the Canadian economy and all our shareholders to go ahead with such a program under present circumstances."

. . . . .

"In the first place, evaluation of the shares for sale purposes would be most difficult and we fear that the prices, when determined, would appear exorbitant - reflecting, as they would, the appreciation in values resulting from years of successful operation of the business. Equally important, from our point of view, the sales of stock at their present true values would result in capital gains subject to heavy tax in this country.

We appreciate that any corporation may and probably will find it to be a material asset to have shareholders in the countries in which it operates. In most countries this objective can be attained through the widespread ownership of shares in the parent itself. In time, perhaps the laws of the Dominion may be amended to make this possible and practicable in Canada."

. . . . .

"I have checked, and find that it would not be feasible for this Company to sell stock of one of our Canadian subsidiaries, as this would be a violation of the restrictions in certain of our loan agreements and the provisions of our preferred stock."

. . . . .

"Actually, the reasons usually advanced in support of listing U.S. corporate shares in the Canadian market are far less compelling now than they were some years ago. By way of clarification in our own case, it may be of interest that in 1945, at the close of World War II, some 54 per cent of ( ) shares issued and outstanding were registered in Canada; five years later this percentage had declined to 33.5 per cent; by the end of 1955, our shares registered in Canada had dropped to 16 per cent; and at the close of 1960 Canadian share ownership was just under 13 per cent. This steady movement of ( ) shares from Canadian to U.S.ownership has persisted through 1961 and to date in 1962. Shares registered in Canada at present represent approximately 8 per cent of the total, and less than 4 per cent are currently held by individuals. Much of this major redistribution of ( ) share ownership has unquestionably been the result of the dividend tax credit legislation enacted in Canada some years back. In our view, an earlier listing of our common shares in Canada would have had little if any effect on this trend, nor is it likely that listing in Canada today could materially alter the present division of shareholdings between Canada and the United States.

Furthermore, the market for (   ) shares in Canada has at this point become so thin as to be nearly static, and it appears very doubtful that a listing under such circumstances would prove to be beneficial or could be justified."

. . . . .

"Our subsidiary in Canada is what I believe would be designated in your country as a secondary producer. That is to say, it is engaged in fabrication of materials and not in the extraction of raw materials. As such, we have found that because of economic and competitive conditions, our Canadian operations tend to be marginal and capable of staying alive only because they benefit from the United States operations in numerous ways. Our profit margins at present in Canada, even so, are not likely to be attractive to an investor".

. . . . .

"We understand the reasons for your proposals, and while we are basically sympathetic to your objective, it has been the policy of our Corporation from its beginning not to take an investment position in any enterprise other than sole owned."

. . . . .

"In our case, however, since our Canadian company is to a considerable extent a distributing rather than a manufacturing company, and more importantly, since its profits are at a relatively low level because of the high competitive nature of the industry in Canada, we do not feel that your suggestion would be feasible for

us at the moment."

. . . . .

"We have been represented in Canada for many years by wholly-owned subsidiaries. As a matter of fact, we do business through wholly-owned subsidiaries in some 22 other countries throughout the world. The managements of these companies have come up through the ( ) organization and both they and we in this country are used to doing business as part of a family. A change to public ownership of any one of these units would represent a substantial departure from the pattern in which we are geared to do business and at the moment we do not feel that we are prepared to undertake a change of this kind".

. . . . .

"Our conclusions have been that for those who might be interested in acquiring an ownership interest in our company, ample opportunity is afforded through the listing of the parent company's stock on the New York Stock Exchange.

The common stock of the parent company gives the holder a much broader and more diversified interest in the world-wide operations of ( ), together with its newly established ( ), ( ) and ( ), than would be possible in the more limited activities of a wholly-owned subsidiary.

. . . . .

"We feel that any advantage arising from the sale of an interest in ( ), to the public/would be far more than offset by disadvantages. Furthermore, we

feel that the interests of the Canadian shareowner, which I assume are your primary concern, would be served much better by this investment in the shares of the (   ) than in the stock of our Canadian company. The disadvantage to the Canadian shareowner from the tax standpoint of owning the shares of an American rather than a Canadian company are more than offset by the advantages of having an interest in a much larger publicly owned company with a broader market and a greater diversity of products. The shareholder also benefits directly from the fact that the stock of a large international company with a broad market, like (   ), sells generally at a much higher ratio to earnings than would shares representing a minority interest in a smaller Canadian company."

. . . . .

"We have on several occasions in the past given consideration to this matter and the related subject of listing shares of both our Canadian subsidiary and the parent corporation on the Montreal and/or Toronto Stock Exchanges. With respect to the sale of shares of our Canadian subsidiary to Canadian citizens and investors, we have not thought in the past nor do we now think that we have an adequate background of profitable operations to make such shares sufficiently attractive to investors. In addition, we are prohibited under our long-term loan agreements from disposing of any part of the equity of any of our subsidiaries to outside investors and we do not think that there are sufficiently compelling reasons now existing for giving

any consideration to attempting a re-negotiation of these restrictions at this time."

. . . . .

"To construct this plant and provide adequate working capital will require a substantial sum; however, we have adequate resources and do not find public financing to be necessary."

. . . . .

"All of (   ) operations outside the United States are handled by a wholly-owned subsidiary, (   ). The (   ) Canadian company represents one of (   ) foreign subsidiaries, all of which are wholly-owned. To date we have found that this method of operation has been very beneficial to our customers and employees, as well as to our stockholders throughout the world."

. . . . .

"As you no doubt realize, the only subsidiary functions which we have in Canada are related to iron ore operations. We do not construe this operation as an independent function but rather as one of several essential functions of an integrated steel manufacturer.

We have never felt that this type of venture was appropriate for public participation in the United States, and this viewpoint also holds with respect to Canada."

. . . . .

"We do not have outstanding in the hands of the public a minority interest in our Canadian subsidiary. However, I should like to point out that our Canadian

subsidiary is entirely different and has an entirely different role than those of DuPont, Imperial Oil, Ford of Canada, Texaco Canada and so forth. Those companies operate in Canada establishments which more or less duplicate what the parent company does in its own country. However, in our case the overwhelming important Canadian operation from the financial standpoint is that of mining------------. The mines produce a raw material for factories in the U.S. and Canada - but, of course, on account of the difference in population, the U.S. factories consume by far the larger part. This makes the mine an integrated part of our total production scheme. If we had minority stockholders in the mine itself with our parent company's stockholders therefore owning only part of the mine, we would have two conflicting interests within the company regarding a single integrated production process. This fact has always caused us to reject the idea of selling a minority interest."

. . . . .

"At the present time we have no plans for any outside financing at all so we do not contemplate any sale of any stock, either of (   ) or any of its subsidiaries, in the immediate future.

At present the stock of (   ) is listed on the New York Stock Exchange and is available to investors, and an investor has an opportunity for investment in the entire scope of(   ) operations. We consider this preferable from an investor's point of view since the broader scope of the investment should make for increased stability of the investment."

. . . . .

"We have several subsidiaries organized in Canada which are engaged in geological exploration work. These companies are not in the business of selling a product, so naturally it follows that this type of company having no income would not be of interest to Canadian investors.

We do own a part interest in the (   ) and (   )whish has been actively engaged in mining and treating of------------ore in the Province of Quebec. This company has had a difficult existence since its formation and the return on monies involved has been disappointing. Consequently, we do not feel that it would make a desirable company for outsiders to invest in at this time.

. . . . .

"The subject of selling part of our Canadian subsidiary and the listing of the stock on a Canadian exchange has had our serious consideration on several occasions. We think that this would likely occur, if at all, at a time when the market was stronger than at present, and probably at a time when we had a money demand greater than presently exists."

. . . . .

"In reply to your proposal of July 31, it has been the policy of the parent company to have one hundred per cent equity ownership of its subsidiaries, foreign as well as domestic.

Therefore we are not interested in the sale of a part of our equity in our Canadian subsidiary to your Canadian investors."

. . . . .

"It has always been my hope that eventually, as we need equity financing, we could have an issue of stock in our Canadian companies listed on a Canadian exchange. Thus far, we have had no need for further equity financing; but, circumstances do change and our present decision is not inflexible."

. . . . .

"You have pointed out in earlier correspondnece, the impact of Canadian Tax Legislation on income derived by Canadians from investments in the securities of American companies and your point is well taken. At the same time, it should be made clear that it would, in many instances, be a costly procedure for some American companies to modify or change their existing corporate structure to accomodate to your proposal.

The general subject has been discussed in detail with Canadian advisors and the points you have raised have been frequently mentioned, perhaps the greater emphasis being placed on the utilization of Canadians in the Management function, and also directing attention to the need of creating opportunities in the field of science for young Canadians. In this area, we find obstacles in the Canadian regulations that discourage the investment that would be required to create such opportunities."

. . . . .

"Your suggestion is one which we have had under periodic study for more than six years. There are, as you are well aware, many considerations which must be evaluated in reaching a conclusion as to whether the best interests of both the parent company and the subsidiary

would be served by changing the status of the Canadian company to that of partial rather than complete ownership by the parent. Our studies have indicated that certain circumstances, some of which are peculiar to our business, and complexities of various operational relationships with our Canadian company, are such that a partial disposition of our ownership would not be desirable under prevailing conditions."

. . . . .

"As I believe we may have advised you in the past, we have no subsidiary corporation in Canada -- our operations being conducted there by a branch of this Company and one of our subsidiaries. We have found this arrangement entirely efficient and satisfactory and our volume of business in Canada has grown nicely in recent years. We are, therefore, not particularly inclined to alter this method of operation in a way which would tend to increase overhead and the required mechanics of operation. We are inclined to feel further that there would not be a significant advantage to us commercially or public-relationwise in the establishment of a separate Canadian subsidiary corporation."

. . . . .

"Our Canadian activities are conducted by (   ), a Delaware corporation, and not through any subsidiary. Therefore, as you indicated in your letter, for tax reasons it might be impractical for a Canadian citizen to purchase other than shares in Canadian companies. However, we are pleased to report that (   ) presently has stockholders scattered

throughout Canada.

Since (   ) stock can be acquired by Canadians through Canadian brokers, our present stock exchange listings do give our stock availability in Canada."

. . . . .

"As you know from the discussions that we have had in the past, we have carefully considered such action and still feel that it would not be in the best interest of either our Canadian organization or the Corporation itself to take such action at this time."

. . . . .

"In addition there are the obvious drawbacks to part corporate, part individual ownership of any business."

. . . . .

"As you know, the fundamental question you raise has been the subject of much debate in recent years. My own view is that an extremely good case can be made for both sides of the question, i.e. on the one hand for the local sale of equity in local subsidiaries and on the other hand for retaining control through total ownership by the parent corporation. I have come to the conclusion that no one answer suits all cases and each company must set its own policies based on the circumstances of each particular case.

To move from the general to the specific, we have very flexible policies with regard to local equity situations. In a Latin American company, where we have recently applied for a license to--------------, we have

decided that the best course is to create a joint venture company with substantial local participation. In our Canadian situation it is our view that the operation's size and fluctuating fortunes does not warrant changing our present equity situation.

A number of large American corporations in the recent past have expressed the view that the long range solution to internationalizing one's shareholder base and broadening the foundation of the private enterprise system lies not so much in the sale of local equities - with its many potential conflicts of interest - but rather with making it easier and more attractive for the local investor to purchase the common shares of the parent U.S. corporation and thus, of course, share in the worldwide profits.

No doubt this latter alternative also has drawbacks, but it does appear to offer an important additional means for meeting the wholly understandable and indeed desirable demand for increased equity participation."

. . . . .

"While, as you suggest, there might be some advantages in such a policy, particularly from a public relations standpoint, we do not feel that they are sufficient in our case to consider an offering of subsidiary shares at this time.

We have characterized our (   ) operations as'a Free World Enterprise, based in the United States'. We have manufacturing plants in eighteen foreign countries and our products are available in more than eighty countries of the free world. We consider each of our

branches and subsidiaries as part of a unified whole, with a large degree of interdependence. We believe that less than full ownership usually presents problems and complications that tend to limit the activities of the subsidiary to a particular product or group of products. Nevertheless, in some cases, we have taken in local partners.

In deciding initially or giving consideration to a change in the organizational structure, some of the key points we consider are:

(1) The contribution that local participation can make including financial, marketing, and general operating know-how, and public, government, and employee relations.

(2) The Government attitude.

(3) The possibilities of conflict of interest between ( ) and local interest on the basic and operating philosophy of the company, research policy, product line and product promotion, management and personnel policies, and dividend policies.

(4) The additional cost, if any, to have a jointly owned company versus wholly owned.

As far as ( ),is concerned, it is doubtful that our Canadian company would have been very attractive to most individual investors in Canada over the past few years. Post war competition in the limited Canadian market reduced margins and this situation was aggravated by the absence of adequate tariff protection

which we found the Canadian government unwilling to consider. As you probably know, we have vacated our --------plant and eliminated much of our------------ manufacture since it had proven to be an unprofitable venture.

In any event, Canadian investors can readily obtain stock in the parent corporation and thus share in the fruits of the entire enterprise. Except for the tax consideration to which you refer, this would seem to be more advantageous to the investor and it is our feeling that Canadians should put more emphasis on this alternative."

. . . . .

"Thank you very much for your thought-provoking letter. The question that you raise -- that of selling shares of our Canadian company to Canadian investors -- is one that we have considered many times. Certainly there are very definite advantages in such a course, as you suggest. However, (   ) is an international company, not only in the sense that we do business throughout the Free World, but also in that our shareholders include citizens and subjects of many countries. Canadian investors have long been owners of (   ) shares, and we hope that even more will invest in our company in the future.

Our position on selling shares is also affected by the nature of our Canadian company which, unlike the Canadian affiliates of many of our competitors, is not an integrated oil operation. Rather, it is almost solely concerned with the exploration and producing phase of the

oil business. Frankly, it would be difficult for ( ) to have outstanding shares of a company whose function encompassed only one phase of the petroleum business, and whose fortunes would probably be subject to wider fluctuation than the relative stability of an integrated, international company. For one thing, because of its narrower base of operations, such a company could probably not hold the same promise of regular dividends, as could its parent. Further, if such a subsidiary's operations were disappointing, there could well be an adverse effect on investor attitudes toward the parent company's shares.

Our position is flexible, and we do review the advantages and disadvantages of selling shares of our Canadian company from time to time. Your taking the time to write to me is indeed appreciated, and your thoughts will be helpful to us in future reviews of our Canadian interests."

. . . . .

APPENDIX XIII

SUMMARY OF REGULATIONS RELATING TO INVESTMENTS BY NON-RESIDENTS IN LEADING INDUSTRIAL EUROPEAN NATIONS AND JAPAN

A. Belgium

1. Foreign interests are free to invest in any particular industry to the development of which they wish to contribute. No legislation has been enacted restricting the extent of such investment and control of the Belgian corporate enterprise may be vested in non-residents without regard to their nationality.

2. Under the Law of July 17, 1959 (Moniteur Belge of August 29, 1959) modified by the Law of February 14, 1961 Title 1 (Moniteur Belge of February 15, 1961) extensive government assistance is made available to supply funds to corporations engaged in operations deemed to be in the general economic interest of Belgium. Any application from foreign persons or companies whether or not established in Belgium, is acceptable if they wish to create a center of activity in Belgium. Similarly, foreign interests may benefit without discrimination under the regional laws of economic assistance and new taxation inducements. In the case of mergers however, in order to obtain tax exemption, the registered office or main administrative establishment of new companies created by the merger must be located in Belgium.

B. France

1. Foreign investment in France falls into two general categories -- those which require government

authorization and those which do not.

2. Broadly speaking, the following investments may be considered as free from authorization, provided they involve a contribution in foreign currency:

a) acquisition of real estate, provided the transaction is performed through a "notaire";

b) purchase of a subscription to French securities officially listed on the French stock market;

c) loans meeting certain requirements regarding interest rate (5 per cent), maturity (less than five years), and amount (1 million new francs maximum (N.F.)).

A noteworthy implementation order issued under Reg.669 (Instruction 772 of January 21, 1959, from the Exchange Office to the "accredited intermediaries") now authorizes foreign purchasers of French securities to take out of France the actual certificates representing the securities.

3. An authorization is required for most direct investments; i.e., when the investor proposes to engage directly in a productive activity, either by becoming a member of an expanding French firm or by establishing his own new firm. Particularly subject to authorization are:

a) acquisition of shares in a firm - all acquisitions, either by purchase or subscription, of securities which are not

listed on the French stock market,

b) acquisision of an existing business,

c) patent licensing,

d) contribution of plant equipment,

e) creation of a new firm or subsidiary.

4. The decision of the authorities is primarily based on the usefulness of the investment to the French economy. At the same time the authorities ascertain that the foreign exchange regulations are respected.

5. The percentage of a firm's capital which may be held by foreign investors is unlimited.

The only limitations to the establishment of a new business managed by the investor or his representatives are found in regulations effecting activities of a special nature, such as mining activities, arms and explosives, pharmaceuticals and banking.

6. With respect to all investments legally created (with or without authorization depending on the applicable requirements), non-resident investors are entitled without restriction:

(a) to transfer the earnings accruing from the investment, such as dividends, interest or royalties, and

(b) to repatriate the proceeds arising from the liquidation of the investment, including capital gains.

7. Application Procedure:

(a) Preliminary study of investment projects - Foreign investors are invited to make use of the "Bureau d'Accueil pour

les Investissements Etrangers" (Information Service for Foreign Investments) which was created for the purpose of supplying all information which the investors may require in connection with investment procedures.

(b) This Service does not offer economic, financial or industrial counsel. Its function is to determine how the individual investment projects will be effected by the applicable laws and regulations (exchange, taxes, labour, etc.). In this manner, the applicants are spared a number of written or personal inquiries to the various departments involved.

(c) The Information Service is available to the investors at various stages of the investment operation. In the preliminary stage, it gathers facts on the laws and regulations applicable to the business operations to be carried out on French territory. Later on, it assists the prospective investors in preparing the application and during its examination by the authorities. The Information Service may also extend its assistance after the actual establishment of the Foreign firm in France in order to facilitate the performance of further formalities (for instance, obtaining the Commercial Card, etc.).

C. Germany

1. Paragraph 23 of the 'Law on Economic Relations with Foreign Countries' (Aussenwirtschaftsgesetz) published in the Federal Gasette 1961 Part 1, page 181 governs investment of capital and money of foreign investors in the Federal Republic. Such investments at the present time are not subject to any restrictions. This applies also to the transfer of earnings and to the repatriation of such capital.

2. Foreign capital companies which want to establish a manufacturing plant in the Federal Republic must be licensed according to paragraph 12 of the 'Regulations Effecting Trades and Industries (Gewerbeordnung). In case the company is a Joint Stock Company or a Limited Liability Company with Joint Stock it has to be licensed under paragraph 292 of the 'Law on Joint Stock Companies' (Aktiengesetz). The permits or licences are issued by the Ministries of Economics of the individual Lander (Provinces).

3. It should be pointed out that according to paragraphs 57 and 58 of the 'Ordinance on Economic Relations with Foreign Countries' (Aussenwirtschafts-Verordnung) investment by foreigners has to be reported to the respective Central Bank of the Land (Province).

D. Italy

1. Investments of foreign capital in Italy are subject to various regulations according to whether or not they are or are not effected in accordance with an enactment of 7th February 1956 as Number 43. Foreign investors are allowed to transfer abroad, without any

limitation as to amount and time, dividends and profits as and when earned from "productive enterprises". Capital proceeds of sale are freely transferable to non-residents provided the assets sold were productive under the law.

2. The transfer or re-transfer of the sums in question can be effected for the respective countervalue in foreign currency at the official rate of exchange or by crediting the lire amount to a foreign account.

3. Enterprises deemed productive under the law may obtain long or medium term loans or may issue bonds in Italy subject to the following restrictions:

(a) If no Italian capital takes part in the enterprise the debts contracted may not exceed 50 per cent of the capital brought into Italy.

(b) When said enterprises are established as Italian companies and also Italian capital participates therein and provided that the foreign participation exceeds 30 per cent, the total debts to be contracted in Italy may exceed 50 per cent of the entire capital, provided that for the part exceeding such percentage it can be proved that the enterprise obtained from abroad credits of the same kind to an extent proportional to the participation of this foreign capital in the enterprise. For example, if foreign capital participates in an

Italian company having a capital of 100 million Lire for a share of 40 per cent (i.e., more than 30 per cent) said company, in order to be allowed to contract in Italy medium or long-term debts for an amount of 70 million (i.e., 20 millions over 50 per cent of its own capital), must prove to have obtained from abroad loans of the same kind and duration for 8 millions (i.e., 40 per cent of the 20 millions exceeding 50 per cent of the company's capital).

(c) In the event that participation of foreign capital takes place by subscription to a share capital increase of an Italian joint-stock company, the aforesaid regulations apply to the loans accepted or to bonds issued after such increase.

(d) The above-mentioned enterprises cannot take participations in other Italian or foreign enterprises without prior authorization from the Miniter of the Treasury. In any case, for the application of the foregoing regulations, the debts (including the issue of bonds) contracted in Italy by the enterprises in which participations have been taken are considered as having been contracted directly by the enterprises which have taken the participation.

(e) All the medium and long-term borrowing operations contracted in Italy must be made known to the Italian Treasury.

(f) If a loan has to be contracted by Italian companies with the participation of Italian citizens residing in Italy, the Italian Treasury must be supplied with the necessary details to establish the ratio between the foreign capital invested and the total capital of the company.

(g) The non-observance of the foregoing regulations will cancel the right to emjoy the favourable treatment reserved to investments which are considered "productive".

4. For the purpose of the Law productive enterprises are considered those whose object is the production of goods or services, such as enterprises dealing with land reclamation or improvement, installation of factories, work-yards, power generators and power transmission lines, digging of wells and tunnels, exploitation of floating and aerial crafts, construction of buildings, also for hotel use, and of roads. The Ministry of the Treasury will issue a declaration as to whether a venture qualifies as "productive".

5. Every investment hich is not recognized as productive, or which are portfolio investments, - i.e., purchases on the market of industrial securities

(including participation certificates) or of fixed interest - bearing securities - fall under the regulations of Article 2, of the Law of 7th February, 1956 No. 43. These regulations provide in part:

(a) Free transferability abroad of the interest, dividends and profits earned up to a maximum of 8 per cent per annum;

(b) Subject to Ministerial permission the re-transfer abroad of the capital derived from the sale of assets previously invested after two years have lapsed from the date of such investment and up to an extent not exceeding the amount of the foreign currency originally imported.

E. The Netherlands

1. There are no specific legal provisions dealing with subsidiaries of foreign enterprises. The status of such is exactly the same as that of a purely Netherlands enterprise.

2. Management may be entirely foreign as may all employees.

3. Meetings of shareholders must be held in the Netherlands; board meetings can be held anywhere.

F. Sweden

1. Restrictions Concerning Real Estate and Mining.

(a) The right of aliens to acquire real estate in Sweden has long been restricted by law. In order to prevent foreigners

from obtaining control over real estate through a limited company, the law expressly prohibits all limited companies from acquiring real estate without permission from the authorities, unless the Articles of the Association include a provision to the effect that less than one-fifth of the share capital may be controlled by foreigners or, in the case of shares entitled to different voting rights, less than two-fifths of the share capital and at the same time less than one-fifth of the number of votes. The existence of such a restrictive clause in the Articles of a company is indicated in the summaries by the words "Foreign shareholdings are limited". Shares that may be acquired by foreigners are known in Sweden as "free" shares.

(b) A Swedish limited company whose share certificates may be made out to bearer, may not acquire real property, acquire or work a registered mineral claim nor carry on mining activities in Sweden unless the King in Council has given the company permission to do so in any individual case. The same applies to Swedish limited companies whose share certificates are made out in favour of a

specific person unless a special restriction has been included in the company's articles of association. This restriction shall provide, where its wording is not still more limitative that only a certain proportion, and at any one time less than one-fifth, of the company's shares or, if there are variations in the voting pertaining to the shares, not more than two-fifths of the share capital or one-fifth of the voting shares, may be acquired by subscription or transfer by a foreign citizen, joint body or foundation, by a Swedish cooperative society, by a Swedish limited company whose share certificates may be made out to bearer, or by any other Swedish limited company whose articles of association do not contain the restrictive provision mentioned above.

(c) Acquisition of any share contrary to this restriction is invalid. Restrictions upon the right to acquire real property, etc. are not applicable to acquisition resulting from the division of joint property in marriage or from inheritance or bequest.

(d) Acts of 18th June 1925 and 7th June 1934 concerning the appointment of

"figureheads" or "fronts" for the holding of real property or shares in certain companies stipulate penalties in the event that a legally valid ban upon the acquisition or retention of real property without permission or special approval or a ban upon the acquisition by a foreign citizen, joint body or foundation or Swedish joint body of shares in certain Swedish limited companies is circumvented by the appointment of any person or persons to act as a "front" for any other person or persons to whom the ban applies.

2. Royal Decree of 18th June, 1864 on expanded freedom of commerce (Freedom of Commerce Decree).

(a) The stipulation is made in No. 26 of the above decree that a foreign natural person may not carry on in Sweden any commercial or manufacturing activity, nor pursue any artisan trade or other occupation without first obtaining permission from the King in Council. This permission is required irrespective of whether the foreigner in question intends to administer the business himself or through a Swedish natural or legal person who simply acts as his representative and thus conducts the business on behalf of the foreigner.

(b) It is made a condition of the granting of such permission that the applicant shall be legally competent and that surety or other security shall be forthcoming for the applicant's liabilities to the Swedish state and local authorities over a period of three years.

3. Restrictions Concerning Management.

(a) The members of the board and Managing Director of a limited company shall - where no exception is made by the King or any authority he appoints - be Swedish citizens domiciled in Sweden.

(b) Exemptions may not refer, in the case of the board members, to more than one-third of the total number. The authority which grants exemption is The Board of Trade.

(c) The current practice is reported to be to approve applications from companies for the appointment of foreigners as members of their boards as long as the numbef of foreigners does not exceed one-third of the total numbef of board members and provided that the Company's share capital amounts to at least 25,000 kronor; should the company belong to a foreign group, however, the share capital need not amount to more than the minimum amount required by law, i.e., 5,000 kronor.

Applications for the appointment of a foreigner as Managing Director are also normally approved, provided that the Managing Director in question is resident in Sweden.

4. Restrictions Concerning Banking.

(a) According to No. 1 of the Swedish Bank Act, banking may be carried on only by banking companies which have obtained the permission of the King in Council.

(b) The founders of a banking company shall be Swedish citizens and at least ten in number. By contrast to the stipulation of the Company Act the founders may not be other than natural persons.

(c) The King in Council checks that the articles of association conform with the requirements of the Bank Act and other legislation and approves the articles of association if the proposed banking business is found to be in the public interest. The authorization is granted for a maximum period of ten years at a time.

(d) Under No. 18 of the Bank Act the shares in a Swedish banking company may be required through subscription or transfer (as opposed to acquisition under Family Law) only by:

i) a Swedish citizen,

ii) a Swedish limited company with a "foreigners clause" in its articles of association,

iii) certain Swedish cooperative societies,

iv) a Swedish registered partnership in which all the participators are Swedish citizens,

v) other Swedish joint bodies and foundations.

5. Restrictions Concerning Stockbroking and the Operation of a Stock Exchange.

(a) Stockbroking is deemed to mean professional business activities relating to the purchase and sale on a commission basis of shares, other certificates of participation in limited companies, and bonds.

(b) Special permission is required from the Royal Bank and Stock Exchange Inspection Board before a stockbroking business may be conducted. Permission may be granted to a private individual, registered partnership and a Swedish limited company.

(c) A private individual may be granted permission to act as a stockbroker provided that he

i) is entitled to conduct a business in Sweden. In the case of a foreigner this refers to the necessity for him

obtain permission in accordance with the Freedom of Commerce Decree.

ii) has attained the age of 25,

iii) has served a period of at least 3 years with a stockbroker,

iv) is not revealed by information available to be an unsuitable person for the profession,

v) has at his disposal for the business in question a capital sum of not less than 200,000 kronor or in certain cases not less than 50,000 kronor.

d) A registered partnership may be granted permission to act as stockbroker provided that

i) the partnership is entitled to carry on business in Sweden, in which connection, in the case of partnership with foreign participation, permission is required as described above,

ii) the participants in the partnership have attained the age of 25,

iii) at least one of the participants in the partnership has served a period of at least three years with a stockbroker,

iv) the partnership has at its disposal a capital sum of at least 200,000 kronor to be utilized in the business.

e) A limited company may be granted permission

to act as a stockbroker provided that

i) the members of the board have attained the age of 25,

ii) at least one of the members has served with a stockbroker for not less than three years,

iii) the company is not found unsuitable to carry on a stockbroking business,

iv) the company's share capital amounts to at least 500,000 kronor.

f) A general requirement for the granting of permission in accordance with the above is that the business is not found to be such that it might prove detrimental to the public interest.

6. Insurance Restrictions Concerning the Right of Foreign Institutions to Conduct Insurance Business in Sweden.

a) A foreign insurance institution may conduct insurance business in Sweden through a general agent, provided that the King has granted the institution permission (concession). The general agent shall be domiciled in Sweden, legally competent and not bankrupt. In the event that the general agent is a foreign subject, he shall have obtained permission as prescribed in the Freedom of Commerce Decree to carry on trade or any other commercial or industrial activity in Sweden. The general

spent may also be a Swedish limited company or mutual insurance company or a Swedish registered partnership, as long as any foreign participators have been granted permission under the Freedom of Commerce Decree. Among the supplements to be attached to the insurance institution's application for a concession is a certificate attesting that the institution conducts a legally authorized insurance business in its own country and a certificate showing that the institution has deposited with the Sveriges Riksbank bonds issued by the Swedish Government amounting to a total of 100,000 kronor for life assurance, fire insurance or marine insurance, a total of 200,000 kronor for motor insurance and a total of 50,000 kronor for each other branch of insurance.

b) If the proposed business is found to be needed and otherwise each as to contribute to the sound development of insurance in Sweden, the King grants a concession for the carrying on of the Business until further notice, or, where circumstances require, a fixed period not exceeding ten years.

7. Restrictions Concerning Foreign Exchange.

a) The permission of the Sveriges Riksbank is required for the bringing into or taking

out of the country of foreign means of payment, certificates of claim, securities, etc. Should a foreigner intend to subscribe for shares in a Swedish limited company and bring currency into the country for that purpose, permission is thus required from the Sveriges Riksbank for the introduction into the country of that money.

G. Japan

1. Japanese regulations aim at limiting foreign investment to that which will contribute to the self-support and sound development of the Japanese economy and to the improvement of the international balance of payments.

2. The Minister of Finance has broad powers of licensing relating to the moement of foreign exchange to and from foreign owned corporations operating in Japan. In addition the Minister from time-to-time prepares a list of industries in which foreign investment would be acceptable. Priority is given to those enterprises which:

a) Directly or indirectly contribute to the improvement of the international balance of payments, or

b) Directly or indirectly contribute to the development of essential industries or public enterprises, or

c) Are necessary for continuation of existing technological assistance contracts

concerning essential industries or public enterprises or for the alteration of the articles of the contracts concerned such as renewal.

3. Foreign Investors Deposit Accounts must be established for the processing into foreign currency of short term (under three months) sale transactions made by foreign investors. The conversion of Japanese currency into foreign funds through these accounts must be the subject of a special Cabinet Order should any other type of transaction be involved.

4. A foreign investor desirous of acquiring stock or proprietary interest (exclusive of those which come within the purview of the exceptions set forth below) in a juridical person established under Japanese laws shall first obtain validation of the acquisition concerned from the competent Minister in accordance with the Ordinance of the Competent Ministry. This restriction does not apply to the following situations:

a) Case where a foreign investor acquires stock or proprietary interest due to transfer from another foreign investor who has legally owned the said stock or proprietary interest.

b) Case where a foreign investor acquires stock or proprietary interest due to inheritance or bequest.

c) Case where, upon the amalgamation of a juridical person who has legally owned stock or proprieatry interest, the

foreign investor who is a juridical person continuously existing after the amalgamation or newly established with the amalgamation acquires the said stock or proprietary interest.

d) Case where a foreign investor who legally owns outstanding stock or proprietary interest of a juridical person acquires, upon the amalgamation of the said juridical person, new stock or proprietary interest of the juridical person continuously existing after the amalgamation or newly established due to amalgamation, allotted on the strength of the said outstanding stock or proprietary interest.

e) Case where a foreign investor who legally owns outstanding stock acquires new stock allotted on the strength of the said outstanding stock upon the issuance of the new stock due to crediting to the stated capital of the reserve fund of the issuing company of the outstanding stock.

f) Case where a foreign investor who legally owns outstanding stock acquires new stock allotted on the strength of the said outstanding stock upon the issuance of the new stock (exclusive of the new stock concerning which the amount to pay therefor is provided for in Article 4

paragraph 1 of the Law concerning Crediting Revaluation Reserves to the Stated Capital) due to crediting to the stated capital of the revaluation reserves of the issuing company of the said outstanding stock.

g) Case where a foreign investor who legally owns outstanding stock acquires new stock issued due to the splitting up or consolidation of the said outstanding stock.

h) Case where a foreign investor who legally owns outstanding stock acquires new stock issued for the purpose of paying dividends of the said outstanding stock.

i) Case where a foreign investor who has legally owned outstanding convertible stock or convertible debentures acquires new stock due to conversion of the said convertible debentures.

j) Case where a foreign investor receives restoration of stock or proprietary interest pursuant to the provisions of the Cabinet Order concerning Restoration of United Nations Shares (Cabinet Order No. 310 of 1949), German Property Custody Order (Cabinet Order No. 252 of 1950) or of the Cabinet Order concerning Restoration, Etc. of United States Property (Cabinet Order No. 6 of 1951).

k) Other cases as provided for by

Cabinet Order.

5. Provision is made to protect foreign investment through the review by the Minister of Finance of any order of expropriation which may have been issued against the foreign assets. Proceeds of expropriation are convertible into foreign currency within a year of the date of receipt of such proceeds.

APPENDIX XIV

This Appendix covers in detail the Balance Sheet and Flow of Funds statements of two large groups of companies, classified according to size, for selected periods.

Index

A. - Balance Sheet statistics covering the operations of 603 companies for the period 1935-51 in total and classified according to size.

B - Source and Use of Funds statistics for the A groups and for the same period.

C - Balance Sheet statistics for 673 firms for the period 1947-54 in total and classified according to size.

D - Source and Use of Funds statistics for the C groups and for the same period.

E - Description of the 603 companies analyzed in Appendices A & B.

(Millions of Dollars)

BALANCE SHEET - 603 COMPANIES - 1935 - 51

Fiscal Year nearest Calendar Year	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
ASSETS																	
Cash	176	198	204	222	242	268	321	318	323	366	355	351	361	400	435	437	422
Marketable Securities	203	205	189	177	169	187	217	340	469	524	562	430	398	377	436	623	601
Accounts Receivable (1)	198	217	232	220	265	329	401	437	439	439	440	477	573	641	632	791	858
Inventories (2)	419	458	515	493	534	640	761	776	818	779	778	925	1214	1386	1372	1531	1963
Plant & Property (Net) (3)	2232	2193	2204	2194	2173	2159	2152	2096	2006	1949	1966	2100	2335	2632	2878	3095	3465
Investment other co's.(Net)(4)	279	286	296	283	299	294	287	274	264	262	264	296	313	322	340	367	374
Miscellaneous Assets (5)	77	84	80	72	77	73	73	69	66	64	80	79	100	104	107	105	126
Goodwill, Franchises, etc.	148	133	127	119	115	112	110	109	108	108	108	107	106	104	103	93	94
	3732	3774	3847	3780	3874	4062	4322	4419	4493	4491	4553	4765	5400	5966	6303	7042	7903
LIABILITIES																	
Bank Loans	73	80	79	62	66	68	103	102	116	86	60	80	132	117	147	168	270
Current A/C's Payable	106	125	140	121	148	194	260	297	296	305	304	339	421	459	432	557	625
Accrued Liabilities (6)	70	83	97	89	111	206	300	264	247	226	219	218	273	287	273	369	456
Misc. Liabilities (7)	49	50	45	45	50	63	75	88	92	79	60	78	97	110	104	117	144
Funded Debt (Net) (8)	928	914	900	881	873	841	818	797	788	750	771	767	921	1043	1133	1283	1478
Preferred Stock	484	482	461	455	451	439	437	435	427	425	415	395	443	466	469	489	495
Common Stock	1387	1344	1376	1375	1380	1407	1389	1396	1404	1413	1429	1493	1546	1576	1627	1710	1818
Surplus (9)	635	696	749	752	795	844	940	1040	1123	1207	1295	1395	1567	1908	2118	2349	2617
	3732	3774	3847	3780	3874	4062	4322	4419	4493	4491	4553	4765	5400	5966	6303	7042	7903

SOURCE - BANK OF CANADA - FINANCIAL STATISTICS

(1) Includes refundable excess profits tax in war years.
(2) Special inventory reserves have been deducted.
(3) Depreciation and depletion reserves have been deducted.
(4) Includes fixed and net current investment in subsidiaries.
(5) Includes bond discount, prepaid expenses, deferred development, etc.
(6) Accrued taxes, interest and dividends.
(7) Includes pension fund reserves, insurance reserves, advances on contracts, etc.
(8) Outstanding debt less sinking fund. Includes Loans from Parent companies.
(9) Includes contingent and general reserves, capital surplus, refundable portion of excess profits tax.

(Millions of dollars)

BALANCE SHEET - GROUP I - 34 COMPANIES - ASSETS OVER $25 mm. - 1935 - 51

Fiscal Year nearest Calendar Year	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
ASSETS																	
Cash	85	105	102	103	108	140	183	152	155	179	171	170	197	214	208	244	240
Marketable Securities	99	102	90	74	63	63	77	140	210	232	266	201	197	175	234	361	365
Accounts Receivable (1)	87	93	93	88	110	137	160	193	182	177	160	178	218	260	267	340	385
Inventories (2)	184	202	239	238	239	277	321	316	320	320	333	398	546	650	644	702	914
Plant & Property (Net) (3)	1353	1326	1334	1333	1321	1314	1307	1287	1236	1199	1188	1252	1389	1577	1740	1875	2099
Investment other co's(Net)(4)	191	200	210	199	216	212	203	194	187	183	184	199	205	193	200	207	200
Miscellaneous Assets (5)	37	44	41	36	42	40	40	35	33	32	41	40	50	52	52	54	67
Goodwill, Franchises, etc.	60	60	60	60	60	60	60	60	60	60	60	59	59	58	57	56	52
	2096	2132	2169	2131	2159	2243	2351	2377	2383	2382	2403	2497	2861	3179	3402	3839	4322
LIABILITIES																	
Bank Loans	18	23	25	18	19	15	24	20	17	7	6	17	25	16	42	37	68
Current A/C's Payable	39	48	56	48	59	82	110	124	117	116	113	132	184	203	189	251	290
Accrued Liabilities (6)	41	47	54	47	55	101	142	123	109	106	100	105	141	158	153	214	266
Misc. Liabilities (7)	41	41	36	37	41	49	56	52	49	54	47	58	76	88	84	98	124
Funded Debt (Net) (8)	618	613	604	597	598	585	571	567	574	542	561	538	627	705	770	851	939
Preferred Stock	180	182	170	170	170	170	168	167	167	167	167	162	208	219	225	227	233
Common Stock	773	754	777	777	777	782	761	762	763	764	766	795	830	845	892	968	1059
Surplus (9)	386	424	447	437	440	459	519	562	587	626	643	690	770	945	1047	1193	1343
	2096	2132	2169	2131	2159	2243	2351	2377	2383	2382	2403	2497	2861	3179	3402	3839	4322

For Footnotes - See Composite Balance Sheet

(Millions of dollars)

BALANCE SHEET - GROUP 2 - 118 COMPANIES - ASSETS $5 mm. - $25 mm.- 1935 - 51

Fiscal Year nearest Calendar Year	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
ASSETS																	
Cash	57	58	65	74	85	78	86	106	102	111	109	108	101	112	135	110	108
Marketable Securities	79	79	75	79	81	89	99	141	176	193	193	156	144	145	141	190	163
Accounts Receivable (1)	63	71	80	78	90	113	147	148	156	156	167	172	207	220	210	267	283
Inventories (2)	147	162	171	157	183	234	278	288	324	290	278	329	426	466	463	517	653
Plant & Property (Net) (3)	630	620	621	615	608	601	603	577	552	539	554	592	651	729	790	837	940
Investment in other co's(Net)(4)	69	67	64	60	59	59	60	57	54	57	55	67	74	87	95	107	121
Miscellaneous Assets (5)	23	24	25	23	22	20	20	21	19	18	22	23	29	30	33	31	37
Goodwill, Franchises, etc.	49	39	37	31	30	29	28	27	26	26	29	29	29	29	28	27	27
	1117	1120	1138	1117	1158	1223	1321	1365	1409	1390	1407	1476	1661	1818	1895	2086	2342
LIABILITIES																	
Bank Loans	37	39	31	24	26	31	51	50	67	51	28	29	60	53	59	68	109
Current A/C's Payable	38	44	50	43	51	66	91	111	112	115	117	130	145	154	145	186	207
Accrued Liabilities (6)	21	25	29	29	38	66	100	87	85	73	73	71	88	86	78	105	131
Misc. Liabilities (7)	6	6	6	6	6	12	15	29	33	13	7	11	12	12	11	12	12
Funded Debt (Net) (8)	250	242	236	226	221	200	190	176	164	156	153	165	206	245	265	308	388
Preferred Stock	205	205	200	199	197	188	187	188	182	186	181	170	175	187	186	192	188
Common Stock	383	373	383	382	388	409	415	418	422	425	437	466	481	494	497	502	516
Surplus (9)	177	186	203	208	231	251	272	306	344	371	411	434	494	587	654	713	791
	1117	1120	1138	1117	1158	1223	1321	1365	1409	1390	1407	1476	1661	1818	1895	2086	2342

For Footnotes - See Composite Balance Sheet

(Millions of dollars)

BALANCE SHEET - GROUP 3 - 230 COMPANIES - ASSETS $1 mm. - $5 mm. - 1935 - 51

Fiscal Year nearest Calendar Year	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
ASSETS																	
Cash	29	29	30	38	39	41	43	49	55	63	62	58	50	57	71	66	59
Marketable Securities	21	20	20	20	22	30	35	49	67	80	84	62	50	49	54	62	58
Accounts Receivable (1)	36	40	43	40	50	60	72	74	77	81	86	96	112	119	115	135	140
Inventories (2)	69	73	82	76	87	101	127	136	138	133	129	150	183	208	199	232	293
Plant & Property (Net) (3)	218	216	218	214	214	213	211	201	189	182	193	220	250	273	290	315	359
Investment in other co's (Net) (4)	15	15	18	21	20	21	21	20	21	20	21	27	30	37	41	48	48
Miscellaneous Assets (5)	16	15	13	12	11	11	11	11	11	10	13	14	17	17	17	16	17
Goodwill, Franchises, etc.	32	27	25	24	22	20	19	19	19	18	16	15	15	15	15	12	12
	436	435	449	445	465	497	539	559	577	587	604	642	707	775	802	886	986
LIABILITIES																	
Bank Loans	13	13	15	14	16	18	22	26	26	21	17	23	32	35	33	46	69
Current A/C's Payable	22	25	27	23	29	33	46	50	53	58	57	58	69	77	74	90	99
Accrued Liabilities (6)	8	10	12	11	16	33	47	42	42	37	37	33	36	33	32	39	44
Misc. Liabilities (7)	2	2	2	2	2	3	4	7	10	11	6	9	8	10	8	6	7
Funded Debt (Net) (8)	52	51	50	49	45	48	49	47	42	42	46	52	75	76	81	103	126
Preferred Stock	85	81	78	75	71	69	70	67	65	61	56	53	49	51	48	57	58
Common Stock	193	180	181	181	182	183	180	182	185	189	191	196	198	200	201	202	205
Surplus (9)	61	73	84	90	104	110	121	138	154	168	194	218	240	293	325	343	378
	436	435	449	445	465	497	539	559	577	587	604	642	707	775	802	886	986

For Footnotes - See Composite Balance Sheet

(Millions of dollars)

BALANCE SHEET - GROUP 4 - 221 COMPANIES - ASSETS $200 m. - $1 mm. - 1935 - 51

Fiscal Year Nearest Calendar Year	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
ASSETS																	
Cash	5.4	6.2	6.7	6.9	8.5	8.0	9.1	12.1	11.7	13.2	12.4	14.0	12.9	17.5	19.9	17.3	15.4
Marketable Securities	3.7	3.9	3.7	3.8	3.6	4.8	6.4	10.3	15.3	18.3	19.3	11.6	7.9	7.2	7.9	9.0	8.9
Accounts Receivable (1)	12.5	13.2	14.7	14.2	16.3	19.5	21.6	21.3	22.2	24.0	27.0	31.3	36.1	41.3	41.2	50.3	51.2
Inventories (2)	19.1	20.9	24.1	22.1	24.7	28.5	34.7	35.4	36.5	36.2	37.8	46.8	58.6	62.8	65.5	79.2	97.3
Plant & Property (net) (3)	30.4	30.2	31.0	30.6	30.3	30.4	30.8	30.5	29.3	29.3	31.4	36.7	45.2	53.1	58.0	62.2	67.4
Investment in other co's(net)(4)	4.2	3.5	3.4	3.5	3.8	2.9	3.3	3.2	2.8	3.0	3.6	3.9	4.9	5.3	4.2	4.9	4.9
Miscellaneous Assets (5)	1.9	1.9	1.8	1.7	1.7	1.8	2.0	2.2	2.4	3.2	3.4	3.4	3.3	3.9	4.0	4.1	4.9
Goodwill, Franchises, etc.	6.2	6.1	4.4	3.9	3.4	3.4	3.4	3.4	3.3	3.2	3.1	3.1	3.0	2.9	2.7	2.8	2.8
	83.4	85.9	89.8	86.7	92.3	99.3	111.3	118.4	123.5	130.4	138.0	150.8	171.9	194.0	203.4	229.8	252.8
LIABILITIES																	
Bank Loans	4.8	4.6	6.3	5.3	4.8	4.2	6.0	6.5	6.5	6.7	8.5	10.0	14.3	13.1	12.4	17.3	23.6
Current A/C's Payable	6.4	7.7	8.1	7.1	8.6	11.4	13.1	12.7	13.5	15.2	16.2	18.6	22.5	24.3	24.6	29.6	29.8
Accrued Liabilities (6)	1.3	1.6	1.9	1.6	2.6	5.9	10.0	11.3	10.3	9.5	9.0	9.9	10.3	9.8	9.0	10.7	13.7
Misc. Liabilities (7)	.5	.6	.5	.5	.5	.5	.4	.2	.1	.8	.9	.9	1.0	1.0	.9	.7	.5
Funded Debt (Net) (8)	7.7	8.2	9.4	8.9	9.2	8.0	8.3	8.7	9.7	11.2	10.6	11.9	12.5	16.4	15.8	20.3	24.2
Preferred Stock	13.7	13.5	13.0	11.6	12.3	12.6	12.4	12.2	12.0	11.1	10.7	9.5	10.7	9.7	10.3	13.7	17.0
Common Stock	37.9	36.9	35.2	34.8	32.8	33.1	33.3	33.6	34.0	34.4	34.8	35.8	36.8	37.9	37.9	38.2	38.5
Surplus (9)	11.1	12.8	15.4	16.9	21.5	23.6	27.8	33.2	37.4	41.5	47.3	54.2	63.8	81.8	92.5	99.3	105.5
	83.4	85.9	89.8	86.7	92.3	99.3	111.3	118.4	123.5	130.4	138.0	150.8	171.9	194.0	203.4	229.8	252.8

For Footnotes - See Composite Balance Sheet

Millions of Dollars

SOURCE AND USE OF FUNDS - 603 COMPANIES - 1936 - 51

Fiscal Year	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
SOURCES																
Net Operating Profit (1)	220	289	233	299	395	502	547	517	481	476	537	685	800	770	973	1171
Non-Operating Income (Net)	46	49	47	43	38	42	36	36	38	41	45	49	52	55	63	59
Depreciation (2)	103	109	106	114	134	161	183	176	149	141	140	157	185	227	253	287
Common Stock	8	16	14	8	9	6	4	4	5	11	56	44	25	51	68	113
Preferred Stock (Net)	-3	-2	-1	5	-2	-2	–	-5	1	-3	-17	58	26	1	9	-7
Bonds (Net)	-16	-18	-17	-16	-20	-24	-24	-12	-19	5	-6	143	160	75	102	153
	358	443	382	453	554	685	746	716	655	671	755	1136	1248	1179	1468	1776
USES																
Taxes	47	59	49	69	166	256	293	282	258	254	261	306	297	298	408	588
Dividends	179	213	222	215	213	214	198	189	188	185	236	275	298	325	377	367
Plant & Property	84	126	99	94	116	146	118	79	91	142	264	387	466	461	448	614
Investment in other co's (Net)	4	6	-17	22	-4	-2	-10	-10	—	2	32	9	-1	-13	-11	33
Inventories	38	57	-22	41	106	121	15	43	-40	-1	147	289	171	-8	159	430
± Working Capital (3)	6	-18	51	12	-43	-50	132	133	158	89	-185	-130	17	116	87	-256
	358	443	382	453	554	685	746	716	655	671	755	1136	1248	1179	1468	1776

(1) After depreciation, bond interest, amortization of discount, etc.
(2) Includes non-cash costs, deferred development charges, depletion, etc.
(3) Includes increase in miscellaneous assets (less misc. liabilities), investment in refundable excess profits tax, adjustments relating to tax accruals of previous years, etc.

Millions of Dollars

SOURCE AND USE OF FUNDS - GROUP I - 34 COMPANIES - ASSETS OVER $25 mm. - 1936 - 51

Fiscal Year	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
SOURCES																
Net Operating Profit (1)	117	159	119	145	199	239	260	241	219	214	243	337	413	409	525	652
Non-Operating Income (Net)	37	40	38	32	26	29	22	23	25	26	25	26	29	28	31	29
Depreciation (2)	56	58	55	59	68	83	93	95	82	80	75	84	97	121	131	152
Common Stock	2	8	5	2	7	1	1	1	1	2	26	34	13	47	61	90
Preferred Stock (Net)	5	-	-	3	-	-	-	-1	-	-	-4	47	13	5	16	8
Bonds (Net)	-9	-10	-6	-9	-11	-14	-9	3	-14	6	-13	82	117	49	51	71
	208	255	211	232	289	338	367	362	313	328	352	610	682	659	815	1002
USES																
Taxes	27	34	27	35	80	118	131	122	110	105	110	142	146	152	214	315
Dividends	109	137	132	125	121	117	115	115	108	109	130	148	174	183	205	216
Plant & Property	42	69	55	48	59	69	68	41	48	63	132	218	282	278	255	339
Investment in other co's (Net)	5	4	-14	22	-4	-6	-7	-5	-1	2	16	-1	-22	-25	-26	13
Inventories	18	37	-1	1	38	44	-5	4	-1	14	65	147	104	2	58	211
+Working Capital (3)	7	-26	12	1	-5	-4	65	85	49	35	-101	-44	-2	69	109	-92
	208	255	211	232	289	338	367	362	313	328	352	610	682	659	815	1002

For Footnotes - See Composite Statement

Millions of Dollars

SOURCE AND USE OF FUNDS - GROUP 2 - 118 COMPANIES - ASSETS $5 mm.-$25 mm. - 1936 - 51

Fiscal Year	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
SOURCES																
Net Operating Profit (1)	69	83	72	96	122	163	177	172	160	161	173	222	246	228	292	354
Non-Operating Income (Net)	7	7	7	8	9	9	9	9	10	10	16	18	18	22	25	24
Depreciation (2)	30	33	32	36	43	54	63	57	48	42	44	49	57	70	78	88
Common Stock	4	6	9	5	2	4	3	2	3	15	26	6	11	3	6	20
Preferred Stock (Net)	-	-	1	-	-1	-1	1	-3	4	-5	-10	14	12	-1	-8	-11
Bonds (Net)	-7	-7	-11	-6	-8	-9	-11	-11	-5	-5	2	40	37	19	39	64
	103	122	110	139.	167.	220	242	226	220	218	251	349	381	341	432	539
USES																
Taxes	13	16	14	21	53	86	99	98	88	89	87	104	97	94	129	187
Dividends	50	54	59	58	57	62	54	49	56	53	70	87	90	98	117	110
Plant & Property	26	36	29	29	37	55	36	28	31	53	84	106	128	126	123	185
Investment in other co's (Net)	-2	-2	-5	-1	-	2	-3	-4	2	-	12	7	13	8	8	19
Inventories	15	9	-14	26	51	44	11	36	-33	-13	52	97	39	-3	54	141
± Working Capital (3)	1	9	27	6	-31	-29	45	19	76	36	-54	-52	14	18	1	-103
	103	122	110	139	167	220	242	226	220	218	251	349	381	341	432	539

For Footnotes - See Composite Statement

Millions of Dollars

SOURCE AND USE OF FUNDS - GROUP 3 - 230 COMPANIES - ASSETS $1 mm. - $5 mm. - 1936 - 51

Fiscal Year	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
SOURCES																
Net Operating Profit (1)	30	40	37	50	63	83	91	84	80	81	94	95	106	102	120	125
Non-Operating Income (Net)	2	2	2	2	2	3	3	3	3	4	4	4	4	4	5	5
Depreciation (2)	14	16	16	17	19	22	24	21	17	16	17	21	25	30	34	38
Common Stock	3	2	-	1	1	-	-	1	1	1	4	2	1	1	1	2
Preferred Stock (Net)	-8	-2	-1	1	-1	-1	-1	-1	-2	-5	-2	-4	1	-3	-	-1
Bonds (Net)	-	-	-1	-2	-1	-1	-3	-4	-1	4	3	19	3	7	10	16
	41	58	53	69	83	106	114	104	98	101	120	137	140	141	170	185
USES																
Taxes	6	8	7	11	27	42	51	49	46	48	50	45	41	40	50	64
Dividends	17	19	26	28	31	32	26	22	21	19	28	32	28	35	43	34
Plant & Property	13	18	14	15	16	18	11	8	10	21	40	51	44	46	57	76
Investment in other co's (Net)	1	4	3	-1	1	1	-	-	-1	-1	4	2	7	4	6	-
Inventories	4	9	-6	12	14	26	9	2	-5	-3	21	33	25	-9	33	61
± Working Capital (3)	-	-	9	4	-6	-13	17	23	27	17	-23	-26	-5	25	-19	-50
	41	58	53	69	83	106	114	104	98	101	120	137	140	141	170	185

For Footnotes - See Composite Statement

Millions of Dollars

SOURCE AND USE OF FUNDS - GROUP 4 - 221 COMPANIES - ASSETS $200 m. - $1 mm. - 1936-51

Fiscal Year	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
SOURCES																
Net Operating Profit (1)	4.4	6.4	5.2	7.8	11.1	17.0	21.0	20.5	20.4	19.9	26.0	30.9	35.2	30.6	36.1	39.5
Non-Operating Income (Net)	.5	.5	.5	.7	.6	.5	.6	.8	.8	.8	.9	.8	.9	.9	1.8	.9
Depreciation (2)	2.2	2.3	2.1	2.3	2.7	3.2	3.5	3.5	2.8	2.8	3.1	3.9	5.0	6.9	8.5	8.8
Common Stock	-	-	-	.5	.4	-	.3	.3	.4	.2	.4	.7	1.0	.2	.2	.3
Preferred Stock (Net)	-	-.4	-.2	.2	.3	-.1	-.2	.1	-.7	-.2	-.9	1.2	-.9	-.2	-.1	-3.1
Bonds (Net)	.2	-	-	-.2	-.3	-.3	-.3	-.2	1.2	-.2	1.5	1.5	3.8	.4	2.0	1.6
	7.3	8.8	7.6	11.3	14.8	20.3	24.9	25.0	24.9	23.3	31.0	39.0	45.0	38.8	48.5	48.0
USES																
Taxes	1.0	1.3	1.1	1.8	5.4	9.4	12.9	13.2	13.0	12.2	14.0	14.8	13.2	12.2	15.1	20.7
Dividends	2.9	2.2	4.2	4.0	4.0	3.7	3.4	3.5	3.4	3.3	7.5	8.0	5.3	8.8	11.2	7.4
Plant & Property	1.9	3.2	2.0	2.1	2.9	3.7	3.1	2.1	2.6	4.9	7.7	12.0	12.7	11.1	11.9	12.6
Investment in other co's(Net)	-.3	.2	.1	.4	-.9	.4	-	-.4	-	.2	-.3	.9	.5	-1.0	.7	-
Inventories	1.9	3.2	-1.9	2.6	3.8	6.2	.7	1.1	-.3	1.6	9.0	11.8	4.2	2.7	13.8	18.1
+ Working Capital (3) -	-.1	-1.3	2.1	.4	-.4	-3.1	4.8	5.5	6.2	1.1	-6.9	-8.5	9.1	5.0	-4.2	-10.8
	7.3	8.8	7.6	11.3	14.8	20.3	24.9	25.0	24.9	23.3	31.0	39.0	45.0	38.8	48.5	48.0

For Footnotes - See Composite Statement

Millions of Dollars

BALANCE SHEET - 673 COMPANIES - 1947 - 54

Fiscal Year nearest Calendar Year	1947	1948	1949	1950	1951	1952	1953	1954
ASSETS								
Cash	364	399	427	435	426	449	443	572
Marketable Securities	401	382	442	618	611	495	522	441
Accounts Receivable (1)	563	626	609	750	822	881	928	955
Inventories (2)	1143	1294	1294	1444	1851	1931	2026	1933
Plant & Property (Net) (3)	2299	2594	2845	3096	3443	3820	4141	4563
Investment other co's. (Net) (4)	273	280	291	299	331	395	460	472
Miscellaneous Assets (5)	104	109	111	112	133	138	149	161
Goodwill, Franchises, etc.	71	69	67	65	60	56	56	58
	5218	5753	6086	6819	7677	8165	8725	9155
LIABILITIES								
Bank Loans	136	115	141	167	272	227	267	236
Current A/C's Payable	436	483	451	579	665	753	778	735
Accrued Liabilities (6)	263	272	261	347	433	415	379	351
Misc. Liabilities (7)	57	58	60	71	76	75	79	79
Funded Debt (Net) (8)	885	991	1083	1239	1436	1567	1685	1808
Preferred Stock	397	426	424	444	458	460	474	496
Common Stock	1498	1526	1577	1660	1773	1864	1972	2008
Surplus (9)	1546	1882	2089	2312	2564	2804	3091	3442
	5218	5753	6086	6819	7677	8165	8725	9155

SOURCE - BANK OF CANADA - FINANCIAL STATISTICS

(1) Includes refundable excess profits tax in war years.
(2) Special inventory reserves have been deducted.
(3) Depreciation and depletion reserves have been deducted.
(4) Includes fixed and net current investment in subsidiaries.
(5) Includes bond discount, prepaid expenses, deferred development, etc.
(6) Accrued taxes, interest and dividends.
(7) Includes pension fund reserves, insurance reserves, advances on contracts, etc.
(8) Outstanding debt less sinking fund. Includes Loans from Parent companies.
(9) Includes contingent and general reserves, capital surplus, refundable portion of excess profits tax.

BALANCE SHEET - ASSET GROUP I - 69 COMPANIES

Millions of Dollars

Fiscal Year nearest Calendar Year	1947	1948	1949	1950	1951	1952	1953	1954
ASSETS								
Cash	231	251	250	271	277	278	273	354
Marketable Securities	235	225	277	409	409	302	315	252
Accounts Receivable (1)	290	327	320	404	459	474	508	525
Inventories (2)	660	765	768	848	1113	1203	1279	1186
Plant & Property (Net) (3)	1696	1933	2141	2345	2624	2942	3188	3500
Investment other co's. (Net) (4)	201	195	197	187	210	261	311	343
Miscellaneous Assets (5)	62	66	67	69	82	86	93	102
Goodwill, Franchises, etc.	36	35	34	32	28	27	27	28
	3411	3797	4054	4565	5202	5573	5994	6290
LIABILITIES								
Bank Loans	47	36	60	68	129	96	132	92
Current A/C's Payable	251	279	262	340	409	480	477	451
Accrued Liabilities (6)	176	185	175	239	304	285	267	245
Misc. Liabilities (7)	47	48	50	60	65	65	69	69
Funded Debt (Net) (8)	695	788	868	959	1114	1224	1316	1418
Preferred Stock	280	306	309	317	320	324	336	348
Common Stock	996	1019	1068	1147	1254	1339	1444	1467
Surplus (9)	919	1136	1262	1435	1607	1760	1953	2200
	3411	3797	4054	4565	5202	5573	5994	6290

For Footnotes - See Composite Balance Sheet

Millions of Dollars

BALANCE SHEET - ASSET GROUP II - 152 COMPANIES

Fiscal Year nearest Calendar Year	1947	1948	1949	1950	1951	1952	1953	1954
ASSETS								
Cash	81	90	110	103	94	110	113	147
Marketable Securities	123	116	119	157	154	143	152	135
Accounts Receivable (1)	174	187	180	217	231	265	275	286
Inventories (2)	316	350	351	385	482	486	493	499
Plant & Property (Net) (3)	405	448	478	513	565	617	682	773
Investment in other co's (Net) (4)	47	59	63	75	80	92	102	81
Miscellaneous Assets (5)	23	23	25	25	32	30	33	36
Goodwill, Franchises, etc.	26	25	25	25	25	21	21	23
	1195	1298	1351	1500	1663	1764	1871	1980
LIABILITIES								
Bank Loans	54	49	56	66	95	90	83	91
Curremt A/C's Payable	23	138	125	161	173	187	215	202
Accrued Liabilities (6)	58	59	58	74	88	90	81	78
Misc. Liabilities (7)	6	6	6	7	7	6	6	6
Funded Debt (Net) (8)	141	152	161	210	249	270	292	303
Preferred Stock	78	83	79	85	88	87	87	97
Common Stock	311	315	315	318	322	326	327	339
Surplus (9)	424	496	551	579	641	708	780	864
	1195	1298	1351	1500	1663	1764	1871	1980

For Footnotes - See Composite Balance Sheet

Millions of Dollars

BALANCE SHEET - ASSET GROUP III - 295 COMPANIES

Fiscal Year nearest Calendar Year	1947	1948	1949	1950	1951	1952	1953	1954
ASSETS								
Cash	45	49	58	53	48	52	47	62
Marketable Securities	38	36	41	46	43	46	51	50
Accounts Receivable (1)	85	96	93	110	113	124	125	124
Inventories (2)	146	157	153	185	225	215	226	221
Plant & Property (Net) (3)	180	193	203	215	229	234	245	263
Investment in other co's (Net) (4)	22	23	29	35	39	39	45	45
Miscellaneous Assets (5)	17	17	17	16	17	20	21	20
Goodwill, Franshises, etc.	7	7	6	6	6	6	6	6
	540	578	600	666	720	736	766	791
LIABILITIES								
Bank Loans	31	27	22	27	41	36	45	47
Current A/C's Payable	53	57	56	68	73	75	74	72
Accrued Liabilities (6)	25	25	23	30	36	35	27	24
Misc. Liabilities (7)	3	3	4	4	4	4	4	4
Funded Debt (Net) (8)	44	43	47	62	65	63	70	78
Preferred Stock	33	33	31	37	43	42	43	44
Common Stock	169	169	171	173	175	177	180	181
Surplus (9)	182	221	246	265	283	304	323	341
	540	578	600	666	720	736	766	791

For Footnotes - See Composite Balance Sheet

Millions of Dollars

BALANCE SHEET - ASSET GROUP IV - 157 COMPANIES

Fiscal Year Nearest Calendar Year	1947	1948	1949	1950	1951	1952	1953	1954
ASSETS								
Cash	7	9	9	9	7	8	9	9
Marketable Securities	5	5	5	5	4	4	4	4
Accounts Receivable (1)	14	16	15	18	18	18	20	20
Inventories (2)	21	22	22	26	31	27	29	28
Plant & Property (Net) (3)	18	21	22	23	24	25	26	27
Investment in other co's (Net) (4)	2	3	2	3	2	3	3	3
Miscellaneous Assets (5)	2	2	2	2	2	2	2	2
Goodwill, Franchises, etc.	2	2	2	2	2	2	2	2
	71	80	79	88	90	89	95	95
LIABILITIES								
Bank Loans	4	4	3	6	7	5	7	6
Current A/C's Payable	9	9	9	11	10	11	12	11
Accured Liabilities (6)	4	4	4	4	4	4	4	3
Misc. Liabilities (7)	-	-	-	-	-	-	-	-
Funded Debt (Net) (8)	5	8	7	8	8	9	8	9
Preferred Stock	5	5	4	5	7	7	7	7
Common Stock	22	22	22	22	22	22	22	22
Surplus (9)	22	29	30	32	32	21	35	37
	71	80	79	88	90	89	95	95

For Footnotes - See Composite Sheet

SOURCE AND USE OF FUNDS - 673 COMPANIES - 1948 - 54

Millions of Dollars

Fiscal Year	1948	1949	1950	1951	1952	1953	1954
SOURCES							
Net Operating Profit (1)	787	759	959	1165	1094	1070	1023
Non-Operating Income (Net)	48	51	53	56	53	67	68
Depreciation (2)	183	225	257	276	317	354	365
Common Stock	25	50	67	117	87	91	34
Preferred Stock (Net)	28	- 2	4	- 5	- 4	11	15
Bonds (Net)	144	78	106	167	132	109	127
	1215	1161	1446	1776	1679	1702	1632
USES							
Taxes	285	289	391	575	541	497	437
Dividends	292	326	376	364	350	355	351
Plant & Property	461	463	456	621	691	662	733
Investment in other co's (Net)	- 3	- 12	- 16	- 36	62	66	10
Inventories	150	-	155	400	79	94	-100
± Working Capital (3)	30	95	84	-220	- 44	28	200
	1215	1161	1446	1776	1679	1702	1631

(1) After depreciation, bond interest, amortization for discount, etc.

(2) Includes non-cash costs, deferred development charges, depletion, etc.

(3) Includes increase in miscellaneous assets (less misc. liabilities), investment in refundable excess profits tax, adjustments relating to tax accruals of previous years, etc.

Millions of Dollars

SOURCE AND USE OF FUNDS - ASSET GROUP I - 69 COMPANIES

Fiscal Year	1948	1949	1950	1951	1952	1953	1954
SOURCES							
Net Operating Profit (1)	507	483	632	791	739	719	712
Non-Operating Income (Net)	29	28	28	31	31	39	47
Depreciation (2)	124	153	175	189	226	252	264
Common Stock	22	49	65	112	78	86	23
Preferred Stock (Net)	25	4	19	- 3	2	18	9
Bonds (Net)	132	63	60	142	104	89	99
	839	780	979	1262	1180	1203	1154
USES							
Taxes	180	182	256	336	356	330	296
Dividends	200	211	237	248	241	234	249
Plant & Property	354	355	336	472	548	496	546
Investment in other co's (Net)	- 16	- 21	- 19	27	51	50	30
Inventories	103	1	82	258	91	75	- 99
± Working Capital (3)	18	52	82	-129	-107	18	132
	839	780	979	1262	1180	1203	1154

For Footnotes - See Composite Statement

SOURCE AND USE OF FUNDS - ASSET GROUP II - 152 COMPANIES

Millions of Dollars

Fiscal Year	1948	1949	1950	1951	1952	1953	1954
SOURCES							
Net Operating Profit (1)	180	180	216	255	246	248	224
Non-Operating Income (Net)	15	19	20	22	18	23	17
Depreciation (2)	38	44	53	57	63	72	70
Common Stock	4	-	1	4	5	1	10
Preferred Stock (Net)	4	- 4	- 13	2	- 2	- 1	8
Bonds (Net)	12	10	39	24	26	16	19
	253	249	316	364	356	359	348
USES							
Taxes	68	71	91	131	129	119	102
Dividends	67	78	97	82	75	89	72
Plant & Property	76	73	85	108	110	128	142
Investment in other co's (Net)	12	3	8	5	11	10	- 21
Inventories	34	2	36	99	1	7	4
± Working Capital (3)	- 4	22	- 1	- 61	30	6	49
	253	249	316	364	356	359	348

For Footnotes - See Composite Statement

Millions of Dollars

SOURCE AND USE OF FUNDS - ASSET GROUP III - 295 COMPANIES

Fiscal Year	1948	1949	1950	1951	1952	1953	1954
SOURCES							
Net Operating Profit (1)	87	85	101	106	98	91	77
Non-Operating Income (Net)	3	3	4	3	4	4	5
Depreciation (2)	19	25	26	27	27	28	28
Common Stock	-	2	-	1	3	5	1
Preferred Stock (Net)	-	- 2	- 2	- 3	- 4	- 5	- 2
Bonds (Net)	- 1	5	6	1	3	4	8
	108	118	135	135	131	127	117
USES							
Taxes	32	31	39	52	50	43	35
Dividends	23	32	37	31	30	27	27
Plant & Property	29	32	32	36	30	38	42
Investment in other co's (Net)	1	6	5	4	-	6	1
Inventories	11	- 3	33	39	- 10	11	- 5
± Working Capital (3)	12	20	- 11	- 27	31	2	17
	108	118	135	135	131	127	117

For Footnotes - See Composite Statement

Millions of Dollars

SOURCE AND USE OF FUNDS - ASSET GROUP IV - 157 COMPANIES

Fiscal Year	1948	1949	1950	1951	1952	1953	1954
SOURCES							
Net Operating Profit (1)	13	11	12	13	11	12	10
Non-Operating Income (Net)	1	1	1	1	-	1	1
Depreciation (2)	2	3	3	3	3	3	3
Common Stock	-	-	-	-	-	-	-
Preferred Stock (Net)	- 1	- 1	-	- 1	- 1	- 1	- 1
Bonds (Net)	1	- 1	-	-	-	-	-
	16	13	16	16	13	15	13
USES							
Taxes	5	4	5	7	6	6	5
Dividends	3	4	5	4	5	6	3
Plant & Property	4	4	4	4	4	1	3
Investment in other co's (Net)	-	-	1	-	-	-	-
Inventories	1	-	3	5	- 4	1	-
± Working Capital (3)	3	1	- 2	- 4	2	1	2
	16	13	16	16	13	15	13

For Footnotes - See Composite Statement

FINANCIAL STATISTICS FOR 603 COMPANIES*: 1936 - 1951

Net Profit before Tax: Industrial Classification

Millions of Dollars

Fiscal Year Nearest to Calendar Year	No.of Cos.	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
Grain Mill Products	7	1.6	1.6	-.1	2.5	3.2	3.3	3.8	6.9	5.3	5.3	5.7	6.8	7.5	5.3	3.9	5.2
Food	41	10.2	9.9	9.8	17.9	16.4	20.6	24.2	26.9	28.5	26.5	25.8	31.0	33.7	36.2	42.4	34.6
Beverage	14	8.0	9.0	7.3	8.4	8.9	12.9	16.6	16.7	22.8	33.6	44.6	36.4	33.3	28.1	27.1	30.5
Tobacco	3	7.7	8.0	8.0	8.2	9.1	9.7	11.5	10.8	10.6	11.6	10.7	9.5	11.5	10.7	11.9	10.9
Leather	7	.4	.5	.4	.7	.9	1.0	1.5	1.4	1.7	1.5	1.8	1.8	1.5	1.1	1.2	1.2
Rubber	7	2.1	2.0	2.8	2.9	3.7	7.1	11.2	9.9	7.8	8.7	9.5	16.2	9.8	4.6	15.5	22.7
Primary Textiles	22	6.1	5.6	3.8	9.8	16.6	23.7	23.6	13.9	15.2	14.3	13.4	18.2	31.7	23.4	36.3	19.1
Miscellaneous Textiles	13	3.2	3.2	2.2	3.6	4.6	7.1	7.7	6.8	6.2	6.9	7.8	8.9	9.5	7.9	9.1	7.7
Clothing	27	1.0	1.3	.5	1.9	2.6	2.9	4.2	4.1	4.4	4.2	6.2	6.6	6.5	4.4	4.5	2.1
Wood Products (incl. Logging)	18	1.1	1.4	.6	1.5	2.6	2.9	3.1	3.2	4.0	3.6	5.5	11.5	11.4	8.0	13.7	13.2
Pulp and Paper	18	1.6	5.5	.6	6.8	21.7	28.4	20.0	21.1	25.0	24.6	61.0	88.0	100.5	94.3	132.4	166.0
Paper Products	23	1.7	2.5	2.1	2.3	3.6	4.8	5.5	5.6	5.6	5.7	8.6	11.1	11.1	10.9	14.1	17.8
Printing & Publishing	12	1.3	1.6	1.3	1.7	2.0	2.2	2.4	2.7	3.0	3.5	3.7	3.3	3.3	3.8	4.5	4.0
Iron, Steel and Products	45	7.2	13.5	9.7	16.9	22.2	30.6	37.5	36.0	29.6	25.3	27.2	38.5	51.0	55.7	72.0	90.7
Machinery (excl. Electrical)	47	7.1	15.2	13.0	10.8	23.6	44.1	60.6	59.7	47.3	41.0	31.9	58.7	77.8	103.0	112.8	116.0
Electrical Machinery & Equipment	26	5.0	8.9	7.2	7.3	13.9	23.0	25.7	20.9	20.8	14.8	12.0	25.1	28.0	33.4	44.8	47.3
Gold Mining	35	44.5	46.5	49.4	50.7	53.4	49.8	39.7	31.0	23.3	20.3	15.7	12.4	14.5	19.6	20.8	18.0
Other Non-ferrous Metals	19	73.0	103.1	69.6	86.4	102.1	120.9	120.8	109.9	92.9	87.3	102.1	151.7	188.6	156.5	188.1	262.2
Non-metallic Minerals (ex.Fuels)	21	2.2	5.1	5.6	6.2	8.3	10.6	11.9	7.9	7.9	10.4	13.2	15.3	20.5	22.3	29.9	34.7
Coal and Natural Gas	16	4.6	5.0	4.8	5.8	6.7	7.0	6.2	6.1	5.7	6.5	6.9	6.9	9.8	9.4	13.1	12.2
Petroleum	9	35.6	38.9	36.2	33.2	34.0	35.1	34.4	37.3	38.2	37.8	41.8	44.6	48.3	47.5	70.3	106.9
Chemicals	25	9.5	11.5	9.3	13.9	17.2	21.5	20.0	18.8	19.5	20.3	22.6	26.3	30.5	30.7	38.9	47.3
Paints and Polishes	8	.7	.9	.7	1.3	1.7	2.0	2.9	2.4	3.0	3.2	3.2	4.0	3.9	2.9	2.5	3.8
Wholesale Trade & Service	57	3.4	4.2	3.0	4.8	5.5	8.8	10.9	11.5	10.9	12.0	15.2	15.7	18.2	15.9	19.5	19.8
Retail Trade & Service	32	4.6	6.4	6.4	7.9	10.0	13.0	17.4	20.2	22.4	26.0	29.8	28.8	32.2	33.1	37.5	37.9
Electric & other Utilities	20	13.4	16.2	16.1	15.7	19.9	23.7	30.8	30.2	25.4	27.9	28.7	28.9	28.4	29.9	35.1	41.8
Telephones	7	8.4	9.4	9.7	9.8	12.6	16.7	19.8	22.0	22.4	25.5	22.1	20.3	20.1	15.8	22.7	39.8
Transportation and Storage	13	.3	1.2	1.5	1.9	3.6	8.1	7.3	5.5	5.3	5.6	2.9	4.8	6.4	7.9	8.1	12.0
Grain Elevators	11	.4	-.2	-1.2	.7	2.1	2.3	2.0	3.8	4.0	3.1	2.6	2.3	2.4	2.9	3.3	4.8
Total of 603 Companies	603	265.9	337.9	280.3	341.5	432.7	543.8	583.2	553.2	518.7	517.0	582.2	733.6	851.9	825.2	1036.0	1230.2

SOURCE: BANK OF CANADA

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* The tabulation includes all those companies in the classification specified with 1941 assets over $200 000 for which consistent reports were available from 1935-51.

APPENDIX XV

SUPPLEMENTARY DATA ACCOMPANYING SUBMISSION TO THE ROYAL COMMISSION ON BANKING AND FINANCE

1. By-laws of Montreal Stock Exchange
2. Constitution and Trading Rules of Canadian Stock Exchange.
3. Exchange Clearing House Company Rules and Regulations - June 1956
4. Montreal & Canadian Stock Exchanges' Monthly Review - June 1962 issue.
5. Official Daily Sheets - Montreal Stock Exchange
6. Official Daily Sheets - Canadian Stock Exchange.
7. Block Board Sheets - Montreal & Canadian Stock Exchanges.
8. Requirements for Listing Securities - Montreal Stock Exchange.
9. Printed Listing Statements - Montreal Stock Exchange.
    - (a) Great Britain and Canada Investment Corporation
    - (b) Falconbridge Nickel Mines Limited
    - (c) Westcoast Transmission Company Limited
    - (d) Crane Co.
10. Listing Application for Industrial Securities - Canadian Stock Exchange.
11. Listing Application for Mining, Oil and Natural Gas Sections - Canadian Stock Exchange.
12. Printed Listing Statements - Canadian Stock Exchange.
    - (a) Alpha Aracon Radio Electronics Limited (Industrial)
    - (b) Glen Lake Silver Mines Limited (Mining).

(c) Dynamic Petroleum Products Ltd. (Oil).

13. Specimens of American Stock Exchange Listing Applications.

(a) Seaporcel, Inc.

(b) Defiance Industries

(c) Henderson's Portion Pak, Inc.

(d) Zion Foods Corporation

(e) Gulf American Land Corporation

14. Filing Statement - Canadian Stock Exchange

15. Printed Filing Statements - Canadian Stock Exchange

(a) Newrich Explorations Limited - No. 294

(b) Merchant Mining Company Limited - No. 302

(c) Brunswick Mining and Smelting Corp. Ltd. - No. 322

(d) Mogodar Mines Limited - No. 325

16. Amending Filing Statement - Canadian Stock Exchange

17. Printed Amending Filing Statements - Canadian Stock Exchange

(a) New West Amulet Mines Limited - No. 4.

(b) Bornite Copper Corporation Ltd. - No. 9-62

(c) Dumont Nickel Corporation - No. A-11-62

18. Underwriting and Option Agreements - Canadian Stock Exchange.

19. Application and Certificate for Approval as a Member Corporation - MC2 Montreal Stock Exchange.

20. Application and Certificate for Approval as a Member Corporation - MCC2 - Canadian Stock Exchange.

21. Application and Certificate for Approval of a Shareholder of a Member Corporation - MC3 - Montreal Stock Exchange.

22. Application and Certificate for Approval of a Shareholder of a Member Corporation - MCC3 - Canadian Stock Exchange.

23. Member Corporations - Resolutions (Officers) - MC4 - Montreal & Canadian Stock Exchanges.

24. Member Corporations - Resolutions (Other than Officers) - MC6 - Montreal & Canadian Stock Exchanges.

25. Member Corporations - Resolutions (For Tax Certification Only) - MC8 - Montreal & Canadian Stock Exchanges.

26. Member Corporations - Facsimile Signature Resolutions - MC10 - Montreal & Canadian Stock Exchanges

27. Member Corporations - Facsimile Signature Agreement - MC11 - Montreal & Canadian Stock Exchanges.

28. Member Firms - Facsimile Signature Agreement - MC12 - Montreal & Canadian Stock Exchanges.

29. List of Members - Member Firms - Member Corporations - Montreal Stock Exchange.

30. List of Members - Member Firms - Member Corporations - Canadian Stock Exchange

31. List of Affiliates of Member Firms and Member Corporations - Montreal & Canadian Stock Exchanges - April 10, 1962.

32. Requirements & Instructions - Authorized Representatives Application - Montreal & Canadian Stock Exchanges.

33. Trading Representative Application - Montreal Stock Exchange.

34. Trading Representative Application - Canadian Stock Exchange.

35. List of Recognized Stock Exchanges & Non-Member Brokers - Montreal & Canadian Stock Exchanges.

36. Form of Agreement by Non-Member Brokers - Montreal Stock Exchange.

37. Form of Agreement by Non-Member Brokers - Canadian Stock Exchange.

38. Supplemental Agreement of Non-Member Broker with Split Commission Privileges - Montreal & Canadian Stock Exchanges.

39. Instructions to Brokers' Auditors - October 1960 - and Forms Q1a, Q2, Q3, Q4 - Montreal & Canadian Stock Exchanges.

40. Members' Questionnaire - General Instructions - May 1960 - Montreal & Canadian Stock Exchanges.

41. Schedule of Commission Rates - Montreal & Canadian Stock Exchanges.

42. Montreal & Canadian Stock Exchange Brochure.

43. Pamphlet - 'The Tale the Big Board Tells'.

44. Booklet - 'Why You Should List on the Canadian Stock Exchange'.

45. Canadian Association of Investment Clubs - Literature and Manual.

46. Survey of Trading, Statistical and Clerical Routines - Montreal & Canadian Stock Exchanges - December 1961.

47. Survey of Trading, Statistical and Clerical Routines - Montreal & Canadian Stock Exchanges - December 1961 - Supplement to Report.

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BRIEF TO THE ROYAL COMMISSION ON BANKING AND FINANCE

SUBMITTED BY

THE TORONTO STOCK EXCHANGE

AUGUST 1962

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FOREWORD

The Toronto Stock Exchange greatly appreciates the opportunity of presenting a brief to the Royal Commission on Banking and Finance.

In the preparation of the document, the Exchange has had the benefit of papers on the various subjects which were prepared by a number of members, their associates and employees. This material was then edited and collated by the Exchange staff, and scrutinized by a committee of the Board of Governors.

Finally, a resume of the statements of policy, suggestions and recommendations which are contained in the brief was submitted to the members at a meeting called for that purpose.

In general, there was unanimity of approval by the members; however, as one might expect in an organization of this kind, there was a small minority who expressed some difference of opinion with respect to some of the proposals. None of this minority expressed a desire to submit or have submitted to the Commission contra proposals either in writing or orally.

The Commission will find that most of the topics suggested by their Secretary for inclusion in the brief have been dealt with; there were a few, however, which the Exchange considered were outside its sphere of action and felt that, with respect to these, it could contribute little or nothing that would be helpful to the Commission.

All of which is respectfully submitted.

July, 1962 H. D. GRAHAM, President

SUMMARY, SUGGESTIONS AND RECOMMENDATIONS

(Suggestions and Recommendations are Underlined)

CHAPTER I:

	Para. No. in Brief
1. The chief function of a Stock Exchange is to facilitate the purchase and sale of shares as between investors.	2
2. The major contribution which a Stock Exchange makes to the well-being of the community is that of liquidity. Through the gathering of all available "bids" and "offerings" in one place, holders of shares listed on the Exchange are assured of the maximum liquidity obtainable in such shares.	3
3. This liquidity tends to broaden ownership of shares, and this, in turn, increases the ability of a public company to raise funds.	3
4. Authorized membership of the Toronto Stock Exchange is 113; there are 113 seats.	8
5. Applications for membership are first approved for submission to the members by the Board of Governors. The members then vote by secret ballot.	11
6. The Toronto Stock Exchange is of the opinion that the appointment of a Chief Executive Officer from outside the industry contributes greatly to the public interest and that the appointment of "public" governors is unnecessary and would serve no practical purpose.	22

Para.

7. The development of a "national" Stock Exchange or pre-eminent market should be an evolutionary process. Whether this would ultimately involve one, two or more Exchange floors in one or more cities is not yet clear, but it would appear at present that the operation of more than one floor is impractical. The Toronto Stock Exchange believes that its own relative stature among Stock Exchanges in Canada will at least be sustained in the future, and that it can, and will, play a vital role in the emergence of any "national" Exchange in due course. 28

8. Public and Press Relations policy is based on the principle of educating the investor. 32

CHAPTER II:

9. Economic developments in Canada have affected)
the organization of security industry by) 40
creating trends to incorporation; to) 41 -42
integration; to geographical distribution;) 43
to more complete service for investors;) 44
to a slight dispersion of trading volume; and)
to increased financial stability.)

10. Study is being given to the possibility of extending memberships beyond the present limit of 113, but there is no assurance at this time that this may be brought about. 46

Para.

11. The business of brokers is a highly personalized one, and the character, personalities and abilities of the principals are of primary importance in competition as between members. 49

12. The Exchange believes that a high degree of harmony and co-operation exists between the leading securities organizations in Canada, and that this state of affairs will not only continue but improve with experience on the part of all concerned. 51

13. The cost of handling an individual order, from the time the ticket to buy or sell is written out until delivery of the securities is completed, varies widely from firm to firm; so many factors are involved that efforts to establish an average have proven unsuccessful. 54

14. The Province of Ontario, since 1911, has imposed a tax on the transfer of securities, with some exceptions. The Exchange acts as an agent for the Province in collecting the tax on securities sold on the Exchange. 56

15. The Exchange considers that whether or not a member firm's financial statement is made public is a matter for the firm itself to decide. 57

Para.

16. The Exchange considers that the present policy which permits the same firm to perform the function of both broker and underwriter is well administered, that it is not against the public interest and that there should be no change in the present policy. 59

CHAPTER III:

17. Personnel of a member firm can be considered under the following categories: (a) Sales, (b) Research and Analysis, and (c) Trading and Clerical. 61

18. Customers' Men - number employed - 746;) 62 (a
)
Salesmen employed - 869; Others who are) 62 (b
)
registered to deal with the public - 356;) 62 (c
)
Mutual Fund Salesmen - 67; Floor Traders) 62(d)-70
)
employed - 373.)

Total employed in the industry, including partners and directors -- 4,543. 72

19. The Ontario and other Securities Acts provide for the registration of persons who may deal with the public, but none of the Acts specify any qualifications.

The Exchange, with some other Canadian Exchanges, specifies that the employment of such persons must be subject to the approval of the Exchange, and that approval may be 63
revoked. The Exchange sets an examination which must be passed by such persons. 64

Para.

20. Members are responsible for the acts of their employees - and no employee is permitted to handle discretionary orders or accounts. 65

CHAPTER IV:

21. The relationship between members of the Exchange and their clients is a personal one in the nature of a trust. 74

22. The Ontario Securities Act prescribes the conditions under which members of the Exchange and their employees and agents may solicit business from the public. 75

23. Under the By-Laws of the Exchange, advertising by members is carefully regulated. 78

24. There is no precise statistical evidence of the extent of share ownership in Canada, or of the occupational characteristics and income levels of individual shareholders. It would be useful to have such information and it is suggested that the Dominion Bureau of Statistics might gather it together on a quinquennial basis. 79

25. The Toronto Stock Exchange permits the purchase of stock on a margin of 50% of the purchase price provided its price is over $1.00 a share, and this percentage must be maintained at all times. 87

Para.

26. There has been nothing to indicate that regulations concerning margin beyond those now imposed and exercised by the Exchange itself are necessary. 89

27. The Toronto Stock Exchange considers it is potentially dangerous to encourage investors - particularly new and small investors - to buy stock on a time payment plan. 92

CHAPTER V:

28. Factors which affect the share prices of a company are: State of the industry of which the company is a part; earnings record; management; trend in working capital and cash flow; and psychology of the investors. 102

29. The growing practice of "saving" through the use of "institutions" is seen in the growth of Pension Funds, Mutual Funds and Life Insurance. 105

30. Many Pension Funds have adopted a policy of dollar averaging - thus creating a steady demand for equities and giving some stability to price levels. 106

31. Mutual Funds have become the greatest source of demand for equities amongst all institutional buyers. 109

32. Experience has shown that institutions are well qualified as investment managers and are not the disturbing factor on market activities that many observers believe them to be. 111

Para.

33. Non-Resident Owned Funds have lost much of their popularity because of proposed changes in U.S. tax laws. If these proposals are carried through, U.S. investors may liquidate large holdings of Canadian equities. However, action already taken by many N.R.O. Funds should reduce selling pressure in the Canadian Market. 112

34. The proportion of assets of Insurance Companies invested in common stocks is very small and well below the statutory limit. 113

35. The traditionally conservative attitude of Canadian investors has had the effect of limiting participation in new or unseasoned issues. 114

36. The proportion of Trust Company assets invested in equities is very modest. 118

37. There is a paucity of statistical information available as to the investment of funds administered by Trust Companies, and it might be helpful if more information could be made available concerning such investments. 119

38. For several past years, there was on balance an inflow of funds from international transactions in Canadian stocks. This trend has been reversed in 1962 when, in May alone, foreigners sold to Canadians a net of $15,300,000 in Canadian stocks. 121(b)

39. At the present time, the Stock Exchange does not recommend any change in investment activities of Pension and Mutual Funds, but 124
a weakness in the selling practices should be corrected.

40. The Toronto Stock Exchange believes that it is desirable for Canadian stock ownership to be broadened and that a downward revision of the present tax structure is necessary to strengthen the economy and encourage new investment in Canada. The importance of foreign capital in contributing to Canada's post-war development cannot be overlooked, and, if the country's development is to continue at an appropriate rate, foreign capital in large amounts will continue to be a necessary requirement. To assure that it will be available, confidence in the future of Canada and its monetary and fiscal policies must be restored and maintained. 124(a)

41. The Toronto Stock Exchange believes that the entire taxation structure in Canada should be the subject of government review in which every consideration is given to reducing the burden of taxation now imposed on corporate or individual taxpayers OR to designing a new formula for taxation which would tend to encourage corporate financing through stock issues rather than by bond issues. 142

Para.

42. At the end of 1961, there were 1,117 stocks listed on the T.S.E. with a market value of over $61 billion; during 1961, more than 719 million shares traded with a value of over $2½ billion. 143

43. An increase in the supply of equities of Canadian subsidiaries of foreign-owned corporations should be encouraged in ways which will be beneficial both to the corporations concerned and to the Canadian investors. Care must be taken to ensure that any encouragement or inducement to increase supply from this source by legislative action is not interpreted as punitive and thus result in impeding the flow of capital into Canada. 146

44. The Exchange recommends that a study be made of incentives, to include tax incentives, designed to encourage the distribution and ownership of equities by all types of investors in Canada. 150

44(a). The Exchange has been urging listed companies to "split" their shares in order to keep their price at or below $20.00 per share. It is suggested that the Bank Act be amended to permit banks to have their shares of nominal or of no par value and thus permit them from time to time to split their shares. It would probably be helpful, also, in this respect if the Commission

44 (a) (cont'd.) Para.

would indicate the advantages (if they agree there are advantages) to the companies and to the public in having shares divided from time to time to permit them to sell in the range of $20.00 or less. 151(A)

CHAPTER VI:

45. The Exchange facilities can handle up to 21,500 daily transactions; there are 411 T.S.E. tickers in 76 towns and cities in Canada and in 5 cities in the U.S.A. The dial quote system has handled up to 75,000 inquiries per day. 152-3-4

46. Orders for the accounts of customers have priority over all other orders executed on the trading floor. "Orders for accounts of customers" does not include an order for an account in which a member or a partner, director, officer, shareholder or employee of a member has an interest, direct or indirect, other than an interest in a commission charged. 165

47. A "professional" may be defined as a person who buys or sells for the short term - as a practice - or consistently - and not only on rare occasions. The professional may have a stabilizing influence on the market. Some members of the Exchange do professional trading, but there are no statistics available to indicate either the amount or the profits, if any, from such operations. 170

Para.

48. Mining and junior oil stocks still have an important, but in recent years a declining, influence on the Toronto Stock Exchange due, in part, to the development here of a large industrial market. But Toronto should continue to hold a pre-eminent place as a mining and oil share market relative to other Exchanges in Canada. 173

CHAPTER VII - Part I:

49. As a result of Sec. 41(b) of the Ontario Securities Act, the Toronto Stock Exchange is responsible for primary distribution of the shares of companies engaged in mining and oil production. 177

50. The Exchange practice is to list only the
issued capital of industrial companies,
but to require the initial listing and 178(a)
posting for trading of the entire authorized
capital of mining and oil companies. 179

51. The efforts of the Exchange to regulate primary financing have been devoted to two principal areas: a)Option and underwriting terms, and b) full disclosure of all material facts. 180

52. The Exchange is much concerned with the arms-length character of a proposed transaction and has recently passed a ruling to limit or control the prices for assets sold by a director, officer or major shareholder to his own company. 186

Para.

53. At all times, an underwriter is held to
account for the orderliness of the market
in the underwritten shares, and he may be
penalized if, following distribution, he
completely ignores the market for these
shares. 188

54. Many people - in fact, many members of the
Toronto Stock Exchange - would remove the
practice of primary distribution for the
Exchange. The alternative would be primary
financing of mining and oil ventures by
prospectus under the direct control of the
Securities Commission. It is quite 191
certain that any method alternative to the
present one would be subject to disadvantages. 194

55. It is doubtful that any public servant, judicial
or administrative, would act more decisively -
or more objectively - or with more experience -
or with greater consideration for the investor -
than do the Governors (of the Toronto Stock
Exchange) and their committees. It is therefore
suggested that the present system of primary
distribution be left as it now is. 195

CHAPTER VII - Part II:

56. The trend to uniformity of legislation (among the
provinces) in the security field is more evident
than in other areas, and there is good reason to
assume that the trend will continue. In recent
years, there has been an ever-increasing 198
degree of liaison and co-operation between the

Para.

various provincial commissions or other
relevant authorities. 200

57. One hears in Canada occasionally the suggestion
that we should have a federal law similar to
the Securities Exchange Act. To justify 203
federal legislation and administration, the
problem of security regulation must be
identified as a national problem. In Canada,
this is not the case. It is in great measure
a local problem, particularly in the matter of
registration of brokers, etc., and can best be
dealt with at that level. 204

58. The work already done in the field of security
legislation has achieved most of the desired
results with little or no disruption of normal
business and a minimum of expense to the tax-
payer or security issuer. 208

59. The Toronto Stock Exchange is of the opinion
that a Federal Securities Act is neither
needed nor justified, but does suggest that
the Federal Government urge upon all Provincial
Governments the need for uniform securities
laws and similar administrative regulations. 209

60. As to market manipulation, this is something
that is extremely difficult to identify and to
prove. A comparison of Sections 323 and 325
of our Criminal Code, with Section 9 of the
United States Securities Exchange Act, might
indicate that our Section 325 should be amended
or extended.

Para.

The Exchange suggests that the Commission might recommend that the Department of Justice study this subject and, after consultation with Stock Exchanges, Provincial Securities Administrators and others, decide whether or not amendments to the Criminal Code are needed. 209-A-B-C

CHAPTER VII - Part III:

61. The Toronto Stock Exchange is, to a large extent, a self-policing organization, and in para. 211 are set out some of the regulations 210 which the Exchange has imposed upon, and enforced against, its members. 211

62. It is the policy and determination of the Exchange that its affairs shall be conducted in accordance with the highest principles of ethics as an efficient quasi-public institution. 212

CHAPTER VIII:

63. Listing policy has been under continuous development over the past ten years, and the tendency has been to increase the requirements. 214

64. The Exchange does not wish to develop a list of highly speculative industrial issues, but, at the same time, it is conscious of a responsibility to provide a market place for smaller industrial companies - it endeavours to ensure that all companies deserving or worthy of listing will be accepted. 215

65. Proof of consistent earnings is regarded as removing the security from the highly speculative field, but, if an industrial company cannot show

Para.

consistent earnings, it may still be accepted if it can show net tangible assets of over $1,000,000 and working capital of $250,000 or more. 216

66. A mining company may be considered eligible for listing when it has carried out preliminary exploratory work so that it can provide a competent engineer's report recommending shaft sinking, etc. The company must also be able to show cash on hand or a proposed plan to raise sufficient funds to carry out the recommendation. 217

67. In the oil and natural gas field, the policy is to accept for listing companies which have adequate financing and sufficient cash flow to ensure the continued life of the company - say, net cash reserves of about $200,000, net cash flow of $25,000 to $50,000; this would mean net reserves of 750,000 to 1,000,000 barrels of light oil on a 4% annual production rate. 218

68. Of the 1,117 issues listed on the Toronto Stock Exchange on Dec. 31, 1961, 620 were industrial and 497 mining and junior oil stocks. 222

69. With some notable exceptions, Canadian public companies generally seem to fail to recognize their responsibility to shareholders and to see the value a well-informed analyst - and

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public - plays in fostering new investor confidence in their securities. It is the Stock Exchange's view that it is inconsistent to encourage wider share ownership without encouraging more informative company reporting. 232

70. The Toronto Stock Exchange endorses the recommendations made by The Security Analysts Association of Toronto in a brief submitted in 1956 to the Royal Commission on Canada's Economic Prospects. 234

71. The Toronto Stock Exchange suggests that legislation be effected under the jurisdiction of the federal and provincial Companies Acts and the provincial Securities Acts, establishing a high uniform set of standards requiring full disclosure of company affairs, as set out in paragraphs..............................236 & 237

72. The above recommendations are not new, nor are they unreasonable demands to be made upon Canadian public companies. 238

73. As to "take-over bids", it must be appreciated that the Stock Exchange influence can extend only to companies listed on the Exchange and there is some doubt as to the wisdom of imposing a method of action on such companies which might place them at a disadvantage vis-a-vis unlisted companies, including foreign companies. 242 to 245

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74. The Toronto Stock Exchange considers that legislative action, probably by amendment of federal and provincial Companies Acts, is desirable in laying down a code of procedure to be applicable to all parties to such "bids" - provided that enactment of the same code in all provinces and by the Federal Government should be simultaneous. 246

75. As to unlisted trading, unless it is recognized that there is an obligation on the part of the underwriting firms to later provide a market for the securities placed with the public, an important part of the mechanics by which capital may change hands will be missing. 260

CHAPTER I

STRUCTURE OF THE INDUSTRY:

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STRUCTURE OF THE INDUSTRY

GENERAL

1. Stock exchanges are an inherent part of the free enterprise system. Virtually every major country boasting a well developed capital market has one or more stock exchanges among its financial institutions. The London Stock Exchange was organized in 1773 and the New York Stock Exchange in 1817. The first stock exchanges in Canada were organized before Confederation and incorporated in the 1870's.

2. The chief function of stock exchanges is to facilitate the purchase and sale of shares as between investors by bringing together in one place orders from those who wish to buy and those who wish to sell. The price at which a share transaction is carried out on the exchange is determined by these forces of demand and supply in such shares at that time, as represented by the best price which one or more investor(s) is willing to pay (the bid) and the best price which one or more investor(s) is willing to accept (the offering).

3. The major contribution which stock exchanges make to the economic well-being of the community is that of liquidity. Through the gathering of all available "bids" and "offerings" in one place (the stock exchange), holders of shares listed on the exchange are assured of the maximum liquidity obtainable in such shares. Because of this high degree of liquidity, broadened ownership of shares listed on one or more stock exchanges is greatly enhanced and encouraged. In turn, broadened ownership of shares

greatly increases the ability of public companies to raise funds through share issues, as and when required. This means of raising capital has been an essential ingredient in the growth of all industrialized nations of the free world.

BRIEF HISTORY OF THE TORONTO STOCK EXCHANGE

4. Until about the mid-19th Century, most manufacturing or commercial enterprises in Canada were relatively small and privately owned. Enterprises which required larger amounts of capital (e.g., banks, railways and trading companies) obtained most of their capital from abroad - primarily England.

5. As the economy (and the need for share capital) grew, the requirement for broader share trading markets (i.e., liquidity) in Canada became increasingly obvious. The Toronto Stock Exchange was founded in 1852 with twelve members. Twenty six years later, the twenty members of the then existing unincorporated Toronto Stock Exchange successfully petitioned for incorporation as The Toronto Stock Exchange, which was created by a special Act of the Legislature of Ontario in 1878. Amendments to the Act were subsequently passed in 1902 and again in 1912, and Supplementary Letters Patent issued in 1941. Reasons for these revisions are given below.

6. In 1908, in response to a similar need for broader trading markets in mining shares, the Standard Stock and Mining Exchange was incorporated in Toronto as an independent organization.

7. In 1934, the 62 members of the Toronto Stock Exchange amalgamated with the 51 members of the Standard

Stock and Mining Exchange (under the continuing name of "The Toronto Stock Exchange"), making it the largest stock exchange in Canada - a position which it still retains.

NUMBER OF MEMBERSHIPS AND SEATS AUTHORIZED, AND HOW HELD

8. Since the amalgamation of the two exchanges, the number of authorized memberships available has remained constant at 113, although there have not always been 113 active members; for example, at present there are 108.

9. Since the amalgamation, there have been 113 seats - one for each membership. Any one member may be permitted to hold up to three seats, but is entitled to only one vote regardless of the number of seats held. When a member is a partner in a member firm or director of a member corporation, his membership and seat under which he has qualified as a member must be made available as an asset of the partnership or member corporation, and available to the creditors thereof. The firm or corporation may have in it more than one member of the Exchange and thereby may have more than one seat held and available as aforesaid.

10. The sales and prices of seats in the period 1947-1961 are shown in Appendix No. 1.

QUALIFICATION AND ELECTION OF MEMBERS

11. Every applicant for membership in the Exchange must be at least 21 years of age, male, a British subject, and have been in business for at least three months as a stock or bond broker, or employed for at least three months in the office of a stock or bond broker. An

application for membership is referred to the Board of Governors for approval and, if approved, is voted upon by secret ballot by existing members. No ballot becomes effective unless at least twenty members cast their votes; one negative vote in each five is required to reject an applicant. Any applicant whose application is not approved by the Board, or who does not obtain the required affirmative majority on a ballot, may re-apply after six months have elapsed. On the New York and London Stock Exchanges, the Governors have full power themselves to elect members.

LOCATIONS OF HEAD OFFICES

12. Of present members, there are 71 with main or their resident offices in Toronto; 13 in Montreal; 9 in New York; 1 in Vancouver; 1 in Winnipeg and 3 in London, Ontario. Many members have branch offices throughout Canada, and some in London, England, and New York.

FLOOR TRADERS ALLOWED

13. For each seat owned, the member may have four traders on the floor of the Exchange plus the member himself, or five traders excluding himself. These traders ar known as "attorneys" or "floor traders".

GOVERNMENT, CONTROL AND MANAGEMENT OF THE EXCHANGE

14. The Exchange operates under the authority of a) its Act of Incorporation, b) By-Laws, and c) Rulings. By-Laws become effective through the majority vote of the members at duly consituted meetings of members, at which 25 members present in person constitute a quorum.

Under the By-Laws, the government of the Corporation is vested in the Board of Governors (the "Board"), who in turn have "authority to make Rulings not contrary to the provisions of these By-Laws and to repeal and amend the same from time to time, and such Rulings shall be binding upon members, member firms and member corporations." (By-Law No. 7, Sec.5).

15. The Board of Governors consists of ten members of the Exchange (elected annually),plus the President (a non-member permanent paid employee of the Exchange). Officers of the Exchange include (i) four (of the ten) members serving on the Board of Governors who are elected to the positions of Chairman, Vice-Chairman, Secretary and Treasurer, (ii) the President (and Chief Executive Officer), (iii) three Vice-Presidents, an Assistant Secretary and a Director of Research (those in (ii) and (iii) are full-time paid employees of the Exchange). An organization chart is shown in Appendix No.2.

16. None of the members of the Exchange serving on the Board of Governors (including those serving as Officers) receive any remuneration for such services. Meetings of the Board are held regularly on a weekly basis and at such other times as the Chairman may direct.

17. Members of the Board and some other members of the Exchange are members of various Committees as indicated in Appendix No. 3.

SHOULD GOVERNOR BE APPOINTED FROM "OUTSIDE"?

18. The question has been raised from time to time as to the merits of appointing to the Board one or more persons not directly associated with the Exchange. Those in favour hold the view that such appointees might bring an additional degree of objectivity to Board decisions and further serve the public interest.

19. By their nature, matters placed before the Board for decision are more numerous, varied and intimately connected with the day-to-day business of the Exchange than those normally placed before the Board of Directors of a public company. Accordingly, a more complete understanding and appreciation of the affairs of the Exchange and its members is required in order to intelligently assess them than could be expected from an "outside" member of the Board. In the view of the Exchange, this factor, together with the necessity on the part of the Board members to devote a considerably greater number of business hours each week to Board meetings than is usually expected of non-management directors, would appear to place an unfair onus and responsibility on any member of the Board not directly associated with the affairs of the Exchange and its members.

PRACTICE IN THE NEW YORK AND AMERICAN STOCK EXCHANGES

20. Governors from outside the membership ("public" governors) are provided for in the constitution of the above - and perhaps other - exchanges in the U.S.A. and are actually appointed. From the standpoint of public relations, this is

probably a good thing, but, as far as can be learned, in actual practice they contribute little to the government or regulation of the exchanges or to the formulation of policy.

21. Rather than by having public governors, it is acknowledged by most brokers that a far more realistic recognition of the quasi-public nature of an exchange's function, and a much more practical way of ensuring an objective consideration of the public interest, is by the appointment of a President and Chief Executive Officer from outside the membership. This the Toronto Stock Exchange believes has been proven in New York and, also, in Toronto, where in early 1961 an "outsider" was appointed.

CONCLUSION

22. The Toronto Stock Exchange is of the opinion that the appointment of a Chief Executive Officer from outside the industry contributes greatly to the public interest, and that the appointment of "public" governors is unnecessary and would serve no practical purpose.

AFFILIATES OF THE T.S.E.

23. Affiliates of the Exchange are two other corporations:

a) The Toronto Stock Exchange Clearing Corporation, which operates a "clearing house" in the Exchange premises under the management of the T.S.E. Through it, accounts are settled and shares delivered between the members and the Exchange rather than directly between members.

b) The Toronto Stock Exchange Building Corporation, which holds and manages real estate used now, or intended to be used in the future, for Exchange purposes.

24. The Exchange operates a contributory pension plan for the benefit of its full-time employees - these numbered 141 (including twenty in the Clearing House) as at June 1, 1962.

NATIONAL STOCK EXCHANGE

25. Although more than one stock exchange normally exists in most of the highly developed countries of the world, one exchange usually predominates in each country and may be referred to as a "national" exchange. The "national" exchange in the U.S.A. may be said to be the New York Stock Exchange and, in England, it would be the London Stock Exchange. A major factor in the development of these institutions to their pre-eminent position in their respective countries has undoubtedly been the heavy concentration of financial institutions (e.g., major banks, insurance companies) in the cities in which these exchanges are located; e.g., New York has been the recognized financial centre of the United States, and London the recognized financial centre of England, for many years. Reasons for this are varied, but appear to flow from the natural course of events.

26. In Canada, developments have been somewhat different. In the early years, a substantial portion of the capital necessary for Canada's growth was imported

from Europe (particularly England). It has been estimated that by the beginning of World War I, approximately 75% of (direct and indirect) foreign investment in Canada was British and only about 20% was U.S.* Thus, the importance of Europe as a source of Canadian capital inflow, the relative slowness (by modern standards) of transportation and communication, the earlier settlement of Eastern Canada, and the geographical location of Montreal, all contributed to making that city pre-eminent in Canadian financial affairs in the 19th. and earlier years of the 20th Century.

*Source: "American Capital and Canadian Resources" by H.C.J. Aitken - p.36

27. In the past several decades, the United States has replaced Europe (particularly England) as the major source of Canadian capital inflow. For example, it has been estimated that in the period 1939 to 1958 the U.S. was the source of about 85% and the U.K. of about 5% of Canada's capital imports.* This factor, together with more rapid means of transportation and communication, and the westward development of the Canadian economy, resulted in the rise of Toronto to vie with Montreal as the financial centre of Canada. This is not the proper platform to argue the relative merits of Toronto and/or Montreal as the country's financial centre, but, with respect to the Toronto Stock Exchange, suffice it to say that in the past three calendar years an average of 68.7% of the dollar value of trading on all stock exchanges in Canada has been conducted on that Exchange and 70.2% in 1961 alone. Figures for all stock

exchanges and for the Toronto Stock Exchange for each of the years 1946, 1951, 1956 and 1959-61 were as follows:

Year	Total Value of Trading on all Stock Exchanges in Canada	Value of Trading on Toronto Stock Exchange	T.S.E.% of Total
1946	$1,233,463,000	$ 748,742,061	60.7%
1951	2,070,159,696	1,174,246,660	56.7
1956	3,774,604,550	2,510,751,759	66.5
1959	2,816,949,344	1,860,422,327	66.0
1960	1,749,431,069	1,223,330,494	69.9
1961	3,596,536,416	2,526,349,869	70.2

In share volume in 1961, 66% of the total industrial sales in Canada and 76% of mining and oil sales were made on the Toronto Stock Exchange.

*Source: "American Capital and Canadian Resources" by H. C. J. Aitken - p. 54

28. The development of a "national" stock exchange or pre-eminent market should be an evolutionary process. The Toronto Stock Exchange feels that factors at work in the Canadian economy at the present time are likely to lead eventually to the emergence of one such pre-eminent exchange in Canada. Whether this would ultimately involve one, two or more exchange floors in one or more cities is not yet clear, but it would appear at present that the operation of more than one floor is impractical. However, the ultimate development of a prime stock exchange will never preclude the continuation of many existing (or the rise of new) "regional" stock exchanges to fulfill functions of a regional character. The Toronto Stock Exchange believes that its own relative stature among stock exchanges in Canada will at least be sustained in

future and that it can, and will, play a vital role in the mergence of any "national" stock exchange in due course.

29. To some persons it seems wrong and against the public interest to permit one Exchange to gain a pre-eminent position. The reverse is the case - a multiplicity of trading places leads to a dispersion of orders, a consequent thinner market and, as a result, greater spreads between bids and offerings. Furthermore, the more trading places, the more the cost per transaction in operation. The cost of modern electronic equipment alone, to afford prompt and efficient quotation, record keeping and other services for members and, through them, to the public, is staggering and requires large volume in one place to justify the necessary expenditures.

30. The Exchange believes that it has an important role to perform in Canadian investment affairs and that its relative importance will not diminish in future years. It is also keenly conscious of its responsibility to the public generally and that its future growth and development will depend upon the maintenance of a high standard of ethics among its members.

31. A comparison of trading in securities interlisted on the Toronto, New York and American Stock Exchanges (Appendix No.44) would suggest that important competitors of the Toronto Stock Exchange are American exchanges, as some Canadian companies have sought listings there. A national exchange in Canada would, it may be assumed,

provide stronger competition than is provided by the "splitting" of Canadian trading between two or more exchanges (See Appendix No.45).

PUBLIC AND PRESS RELATIONS

32. The publicity policy of the Exchange is based on the principle of educating the investor, and, at present, approximately $60,000 per year is spent directly on such a programme. For example:

(a) Last year and again this year, a booth has been operated at the Canadian National Exhibition in Toronto. A new film strip will be shown this year to depict and explain types of investments, how orders are executed, etc. Volunteer employees from member firms are present to answer questions and explain Exchange procedure. Some informative literature is available (two samples are at Appendix No. 37). Several hundred thousand visitors showed great interest in this C.N.E. display.

(b) In 1961, a small magazine was started - The TSE Digest (sample at Appendix No. 38) - which is proving more popular with each issue; there are ten issues a year and the size is being increased.

(c) A modest programme of newspaper advertising is being carried over the term of the year in the principal daily, weekly and college papers in Canada (sample ad. at Appendix No. 39).

(d) A new coloured motion picture - 24 to 26 minutes - is being produced for showing or loan to interested groups across Canada. In 1952, at the

time of the Exchange's centenary, a film was made and has been seen by several million viewers, but is now out-of-date.

(e) For the first time in 1962, an Annual Review of the Exchange's activities in the previous year was produced (copy at Appendix No.40).

In all advertising, emphasis is placed upon the necessity of investors having a financial status which justifies their purchase of equities. They are warned that there is an inherent and varying element of risk in all equities and that they should buy only after careful consideration and after advice from an experienced member of the Exchange.

INDICES

33. In addition to providing the press with bid and ask quotations, total sales, etc., the Exchange compiles and issues four indices each hour that the market is open and seventeen quoted market indices monthly. A new set of indices is now in course of preparation and is expected to be available in the Autumn of 1962.

DAILY BULLETIN AND MONTHLY REVIEW, RADIO, ETC.

34. A daily bulletin, showing all sales, bid and ask quotations and other useful information, is sent to all members and is also available to the public by subscription (copy at Appendix No. 41). A Monthly Review is also issued (Appendix No. 42). Charts are provided to the press, and market summaries prepared for Reuters and other foreign news services. The Exchange does a daily radio broadcast in which 35 stations across Canada participate.

VISITORS TO THE EXCHANGE

35. An estimated 25,000 visitors came to the public galleries of the Exchange last year; here, a tape recording of the trading process may be heard on earphones, and there is also a visual animated chart showing the course of action from the time an order is given until it is executed. Conducted groups of school children, service clubs, etc., are shown over the Exchange premises. On occasions, evening trading demonstrations are put on for interested groups. Each year, a group of eight to ten university professors are guests of the Exchange and learn of its operations through talks by the executive staff and a visit to the floor, etc.

FINANCING THE EXCHANGE OPERATIONS

36. (a) The cost of operating the Toronto Stock Exchange is met by receipts from the following sources:

	Total Fiscal Year Ending 31st March, 1962
Members' assessments, as determined from time to time by the Board of Governors. (Fiscal year 1961 - 1962, $300 per member)	$ 33,900.
Attorney fees. A charge of $12 per month for each member's attorneys on the floor.	51,312.
Clerk fees. A charge of $5 per month for each member's clerk on the floor.	3,310.
Telephone booth. A charge of $35 per month for each member's booth on the floor.	41,772.
Ticket charge. A charge of 9½ cents to each member for each transaction on the floor.	276,823.

Curb trade charge. An additional charge of 5% of the regular commission rates on each trade made by members in stock traded on the Curb Section. (Now eliminated)	$ 41,795
Fines and entrance fees. Charges levied on members on transfers of seats, fines for infractions, etc.	32,030
Transfer tax commission. A commission paid by the province on transfer taxes collected by the Exchange.	54,594.
Ticker commissions. A commission paid by the Canadian National Telegraph on all tickers in service.	68,342.
Interest on investments and other income	60,594.
Listing, filing and sustaining fees (See Note)	379,187
	$1,043,659

Note: As the revenue from listing fees and filing fees is subject to considerable variation from year to year, only 10% of these fees when received are taken into current revenue and the balance placed in a special reserve of which 10% per annum is also brought into current revenue. Thus, listing and filing fees are being amortized on a ten year basis. Had listing and filing fees been taken into revenue as received, this figure would have been shown as $515,491.

(b) The Exchange being a non-profit organization, the various charges to its members by assessment and otherwise are calculated to meet operating expenses each year and to permit the setting aside of such reserves as may be considered prudent to meet future requirements.

Such future contingencies are possible periods of reduced revenue when the incomes of the membership might also be reduced and large-scale expenditures for new equipment which, based on past experience, will be required from time to time. As

intimated later in this brief, it is expected that new quotation equipment will be installed in the early future and in addition increased accommodation must be provided.

(c) Hereunder is a statement of Exchange expenditures for the year ending March 31, 1962.

STATEMENT OF EXPENSES

For the year ended March 31, 1962

Exchange		
Salaries	$439,017.57	
Telephone and telegrams	13,396.49	
Ticker service	10,317.50	
Audit fees	2,000.00	
Exchange auditor	13,800.00	
Law costs	11,562.75	
Pension plan	27,825.92	
Advertising	23,315.02	
General expense	46,440.05	
Printing, postage and stationery	34,127.27	
Business taxes	30,324.70	
Teleregister maintenance	15,293.46	
Unemployment insurance	4,190.39	
Employees' hospital plan	3,914.40	
Business machine rental and expense	74,922.19	
Rent	9,694.06	
Employees' benevolent fund	15,000.00	
Monthly Review	11,842.05	
TSE Digest	4,261.59	
Sundry travelling	14,019.33	
Special travelling	10,585.15	
Research and new processes	16,629.50	$832,479.39
Buildings		
Realty taxes	$ 59,230.83	
Fuel	2,442.35	
Insurance	3,963.77	
Laundry	1,177.09	
Light	7,003.68	
Maintenance and repairs	27,914.51	
Power	4,084.90	
Janitor's supplies and services	24,856.91	
Wages	36,898.11	
Water	3,214.68	
Pension plan	3,916.14	
Excess expenses, 226-230 Bay Street	4,773.39	$179,476.36
		$1,011,955.75

CHAPTER II

MEMBER ORGANIZATIONS - TRENDS - COMMISSIONS, ETC.

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TRENDS IN THE DEVELOPMENT OF MEMBER ORGANIZATION

37. The changes which have occurred in the activities of security dealers in Canada in general, and of the Toronto Stock Exchange members in particular, in the years since World War II must be viewed in the light of economic developments in this country during the same period.

ECONOMIC DEVELOPMENTS AFFECTING MEMBERS

38. The more significant of these developments in relationship to the Canadian securities industry would appear to be:

(i) population growth;

(ii) sporadic but general increase in national income (total and per capita);

(iii) discovery and development of natural resources (e.g., petroleum and natural gas in Western Canada, uranium in Ontario and Saskatchewan, iron ore in Labrador, etc.);

(iv) large capital requirements by various sectors of the economy (Seaway, pipelines, etc.), both public and private;

(v) increasing institutionalization of savings for investment purposes (e.g., insurance companies, trust companies, pension funds, mutual funds);

(vi) development of more rapid means of transportation and (particularly) communication;

(vii) growth in interest in Canadian securities on the part of foreign (particularly U.S.) investors and some tendency in recent years for a growth in interest in foreign securities among Canadian investors;

(viii) changes in personal income taxes, particularly in the area of graduated tax rates and dividend tax credits;

(ix) improving knowledge of actual and potential investors in investment matters.

39. With respect to many of the items cited above, the role of the securities industry has been an active one. In others, it has been one of response to the challenges and opportunities which have resulted. The effect of these and other stimuli on members of the Toronto Stock Exchange is reflected in the following broad developments:

TREND TO INCORPORATION

40. (a) Until the early 1950's, membership in all stock exchanges in either the U.S or Canada was restricted to sole proprietorships or partnerships. In 1953, the New York Stock Exchange permitted incorporation on the part of its membership. In December 1953, the Toronto Stock Exchange passed

By-Law 67, which permitted incorporation of its membership as of January 1, 1954. Simultaneously, audit requirements to adequately safeguard the interests of both clients and other dealers under the new circumstances of limited liability were sharply increased.

(b) Effect of Income Tax Policy - Introduction of By-Law 67 was a recognition on the part of the Exchange of a number of the factors referred to in para.38 and their impact on the business affairs of Exchange members. Chief among these was the difficulty of many members, under the incidence of graduated personal income taxes, to retain in their unincorporated businesses a sufficient portion of their earnings to finance their growing capital requirements. A high level of retained earnings (plough-back) has been an essential ingredient in Canadian business expansion in post World Ward II years. It has been of particular significance to members of the Exchange.

(c) Effect of Exchange Regulations - Under Exchange regulations, every partner of an unincorporated member and every holder of voting shares of an incorporated member must be either an officer or an employee of his member organization actively engaged in the

business (or of an affiliated company) - unless he is in active government service or his health does not permit - and devoting the major portion of his time thereto. Although this regulation was deemed by the Exchange a necessary means of ensuring a high degree of control over the affairs of its membership, it was also a restrictive one in terms of sources of capital for member firms. Thus, to provide long-term capital to meet the financial needs of an expanding securities industry in an expanding economy, member firms have had to rely upon (i) the personal financial resources of active participants in their organizations, (ii) retained earnings.

(d) Earnings Invested in Business - The greater ability to plough back earnings, which, since 1954, might be done if incorporated, is undoubtedly responsible for the sharp increase in corporate membership in recent years (see below).

Type of Organization	No. of TSE Member Organizations as at January 1st			
	1947	1952	1957	1962
Sole proprietorship	18	10	8	4
Partnership	75	88	50	46
Corporation	0	0	41	48
Total No. of Organizations	93	98	99	98

(e) Resulting Stability - There can be little doubt that this permissive alteration in form of organization has played an essential part in the rapid physical expansion and greater financial

stability which has occurred among Exchange members (and their affiliates) during the past decade, and continuance in the trend to incorporation is expected.

TREND TO INTEGRATION

41. (a) The combination of a number of factors referred to in para. 38 has also led to a high degree of integration on the part of many members of the Exchange. For example, as at January 1, 1949, only 41% of Exchange members were directly (or indirectly through affiliates) members of the Investment Dealers' Association of Canada. As at May 15, 1962, the figure had risen to 74%. Similarly, the direct or indirect association of Exchange members with other security organizations (e.g., Montreal Stock Exchange, Canadian Stock Exchange, Vancouver Stock Exchange, Broker-Dealers' Association, etc.) has shown a rising trend in the post-war period (see Appendix No. 4 for detail, and, for a list of members with financial directorship, see Appendix No. 4(a).

(b) The Broker-Dealers' Association has a Board of eight Governors, and the Ontario Securities Commission insists that three of these be members of the Toronto Stock Exchange. In 1961, the T.S.E. brought its influence to bear upon the B.D.A. to deter members of the latter organization from using high pressure methods in marketing securities in the United States, having learned that certain deplorable instances were attracting disrepute to the brokerage

industry in Canada, in the broad sense.

(c) Ontario Securities Commission - Relations between the Stock Exchange and the Ontario Securities Commission are close and cordial, and require frequent consultations together on many matters of mutual interest where such consultation is helpful although not mandatory. Formal relations pertain to the following matters:

(1) Membership in the Stock Exchange is accepted by the O S.C. as one of the three self-policing bodies to which a securities firm (with minor exceptions) must belong in order to deal with the public.

(2) Registration with the O.S.C. of securities salesmen.

(3) Registration and filing of prospectus with the O.S.C. of primary placement of certain new issues to the public.

(4) Arrangement for escrowing and subsequent release of blocks of vendors' shares.

Informal relations include among such other matters of joint concern as:

(1) Discussion regarding certain personnel admissions, where acceptance is not automatic.

(2) Conduct and attitude towards their public responsibilities of member firms.

(3) Revoking of registration where other restraint appears ineffectual.

(d) Effect of Diversified Investing - Basic factors behind this high degree of integration and co-operation among members of the Exchange (or conversely among the members of the other security organizations) are many and varied. One has been the post-World War II trend on the part of institutional, corporate and individual investors alike to deal in both debt securities and equities, and the corresponding desire of many security dealers to broaden their services to include both types. Another has been the rapid strides in both transportation and communication,which have greatly facilitated security (debt and/or equity) transactions between various parts of Canada and between Canada and other countries.

(e) Effect of Multi-Membership - Thus, for example, a security dealer based in one part of Canada may, through branch offices, deal with investors in many other areas of the country. Membership on the Toronto Stock Exchange gives him access to a highly liquidable market in a large proportion of Canadian (as well as a few foreign) preferred and common shares. Membership in other exchanges in Canada tends to supplement the share markets to which he has access and, therefore, broadens the range of the

services which he can make available to his clients. Membership on the New York Stock Exchange provides him with ready access to shares listed on that exchange. Membership in the Investment Dealers' Association of Canada provides him with - among other things -- access to new issues of certain securities of all classes (bonds, preferred and common shares) which membership in one or more of the other security organizations is unlikely to provide him.

(f) Effect of Broad Investor Interest - The apparent complex relationship of membership in various security organizations among securities dealers - as suggested by the present relationship of members of the Toronto Stock Exchange with other groups - is a natural outgrowth of the broadening investor interest in securities of all class and kind in evidence throughout the Western world in latter years. The significance of this interrelationship or internal integration is primarly that which typifies the free enterprise system - a desire and a ready response on the part of (the securities) business to meet the demands of the ultimate consumer (investor).

(g) Conclusion: Increased Integration - Increased internal integration may be expected, but perhaps at a slower pace than has been the case in the post-war years. However, if the trend in recent years to a greater interest in Canadian securities on the part of foreign investors, and in foreign

securities on the part of Canadian investors, continues, it is possible that greater integration between members of various security organizations in Canada (including the Toronto Stock Exchange) and of security organizations in other countries will take place in the future.

TREND TO GEOGRAPHICAL DISTRIBUTION

42. (a) Head Office Locations - Membership in the Toronto Stock Exchange (as represented by head office location) has materially broadened in a geographical sense as well, in post-war years. This is clearly borne out by the following figures:

TSE Member Organization	No. of Organizations as at January 1st			
	1947	1952	1957	1962
Head office in Ontario*	82	80	81	74
Head office in Quebec	5	10	9	13
Head office elsewhere in Canada	1	2	1	2
Head office in U.S.A.	5	6	8	9
	93	98	99	98
* Includes Toronto	78	78	79	71

The impressive increase in T.S.E. member organizations with head offices located in the Province of Quebec and in the United States during the past fifteen years, evident from the above statistics, once more focuses attention on the broadening scope and varying relationship which has typified the securities industry in the post-war years.

(b) Interest in U.S. Securities -- Securities markets are no longer of exclusive interest to local investors, or to local securities dealers. Investors living in one area of Canada are interested not only in Canadian securities available locally, but in Canadian securities whose primary markets are located in other areas of Canada. In recent years, they have also shown an increased interest in U.S. securities whose primary markets are located in that country. Similarly, U.S. investors have widened their security horizons to include Canadian securities with primary markets located in various parts of Canada.

(c) Branch Offices - In order to provide as complete a service as possible to investors in various areas, securities dealers have shown a marked tendency not only to add to their facilities (by becoming members of security organizations in other areas), but also to add to their outlets (by opening branch offices in the areas in which the facilities are added). The degree to which investment firms have directly (or indirectly through affiliates) responded to the widened scope of investor interest in Canada is indicated by the following resume of branch office locations of T.S.E. member organizations as at January 1st, 1962:

Branch Office Locations	No. of TSE Member Organizations as at May 15, 1962
No branch offices	40
Branch offices in Ontario only	23
Branch offices in Ontario and other Canadian Provinces	11
Branch (and head) office in Quebec only	1
Branch offices in Canada and elsewhere	25
Total	100

(d) Conclusion: More Branches Likely - This wide geographical location of Exchange members and their (or their affiliates) head and branch offices reflects not only circumstances peculiar to the members (e.g., ability to incorporate and, hence, more readily finance expansion of their organizations) but also many of the developments in the Canadian economy referred to earlier in this section. More rapid communication is not the least of these. If the trend to broadened interest in securities beyond their immediate markets continues among Canadians (and/or among residents of other countries in Canadian securities), considerable further geographical distribution of Exchange members and/or their branch locations may be expected in future years.

TREND TO MORE COMPLETE SERVICE

43. (a) The preceding paragraphs indicate that the investment industry in Canada has tended to become increasingly complex in the post-war period. This has been a natural response to the growing demands placed

on the industry by investors of all classes.

(b) Effect of More Sophisticated Investors - The past several decades have seen a rapid increase in the institutionalization of investor funds in Canada - a development not unique to this country. This growth in what might be termed professional investing has required an increasing degree of skill and knowledge among members of the securities industry if they are to be competitive in this area. Similarly, individual investors have become more sophisticated as their knowledge of, and experience in, investment matters has broadened. Customers' men and securities salesmen have had to become more knowledgeable, not only about individual securities but also about business conditions, government fiscal and monetary policies, and matters of international significance.

(c) Security Analysts Essential - Security analysis has become an integral part of the fabric of most Exchange member firms. Indicative of this is the fact that in 1961 more than one-half the members of the Exchange had one or more employees enrolled as members of The Security Analysts' Association of Toronto - a group devoted to the pursuit of better investment information. Several members also have employees enrolled in similar organizations in Toronto and other major cities. Few investors today - whether institutional, corporate or individual - are interested solely in one type of security. Debt securities, preferred stocks and common stocks are in varying demand (and supply) under varying conditions.

Although employees of member firms are most likely to be oriented toward equities, they must have a working knowledge of (federal, provincial, municipal and corporate) debt securities of various kinds, and of the factors which affect their present and future worth.

(d) Portfolio Analysis - This is closely associated with, and relies to a considerable degree on, security analysis, and has also become an increasingly important tool of security dealers (including T.S.E. members) as a means of matching investor requirements with available securities.

(e) Mutual Funds have become increasingly popular in recent years as investment media for Canadian investors. Although most mutual funds have their own retail sales force, a portion of their sales are derived through various investment firms. The Exchange has no financial statistics on the degree to which its members participate in this area. It is believed, however, that although in isolated instances the volume of mutual fund share sales may be significant, total sales by members as a whole would represent only a minor portion of Exchange member firm revenues. Similarly, such volume is believed to represent only a minor portion of total mutual fund sales in Canada.

(f) Conclusion: Demands for Service Will Increase - Hence, while the primary function of most members of the Exchange (excluding their affiliated companies) continues to be the day-to-day business of matching purchases and sales of listed shares, the extent of services to clients (suggested above) necessary to

conduct such a business has been one of continuous growth. It is probable that the demands on Exchange members - as on other securities dealers in Canada - in this direction will continue to increase in future years.

TREND TO DISPERSION OF TRADING VOLUME AMONG MEMBERS

44. (a) Slight Dispersion - Available statistics suggest that volume of trading among member organizations (as evidenced by share transactions) has shown some tendency toward dispersion rather than one of concentration in recent years. An analysis of figures over the past ten years indicates that between 1951 and 1961, (i) the percentage of share transactions on the Toronto Stock Exchange carried out by the five leading members remained virtually constant at approximately 23% (or an average 4.6% per member), (ii) the percentage carried out by the next (i.e., sixth to tenth) five leading members declined from approximately 14% (or an average 2.8% per member) to approximately 9% (or 1.8% per member), (iii) the percentage carried out by the succeeding (i.e., eleventh to fifteenth) five leading members increased from approximately 10% (or an average of 2.0% per member) to approximately 12% (or an average of 2.4% per member). The fifteen leading members in terms of share trading volume in 1951 were also the same leading fifteen members in 1961.

(b) The percentage of share transactions conducted by the first five, ten and fifteen leading members in the years 1951, 1956 and 1961 are set out below:

No. of TSE Member Organizations	% of Total TSE Trades Carried out by Leading Members		
	1951	1956	1961
5 Leading Members	23%	22%	23%
10 " "	37	36	32
15 " "	47	47	44

On the basis of these statistics, it would appear that there has been a modest trend to dispersion in terms of share volume of trading among Exchange members. However, the degree of dispersion is not sufficiently great to justify a forecast of the future trend.

TREND TO INCREASED FINANCIAL STABILITY

45. (a) Requisites for Future Growth - Reference has already been made to various trends (incorporation, integration, more complete service, etc.) which suggest that Exchange member firms have been growing in stature in recent years. In part, this no doubt reflects the relative prosperity - in which the Canadian people as a whole have participated - which has existed in this country during the post-war era. More importantly, it reflects the appreciation on the part of most Exchange members that a continuing and constant reputation for (i) integrity, (ii) ability, (iii) financial stability, is the necessary foundation on which to build the long-term future of their organizations.

(b) Evidence of the present financial capabilities of Exchange members may be had from the

following breakdown according to size of the gross assets (including a valuation of the seats) as at December 31, 1961, of seventy member organizations:

Gross Assets	No. of Member Organizations As at December 31, 1961
Over $3,000,000	12
Over $1,500,000 and under $3,000,000	16
Over $750,000 and under $1,500,000	22
Under $750,000	20
	70*

*Excludes member organizations otherwise reporting to the Royal Commission on Banking and Finance through other sources.

(c) Conclusion: Tendency to Grow - Given continuance of recent trends among members to incorporation, integration, etc., it seems logical to expect that, in terms of net assets, member firms as a whole will tend to grow in size and stability with the median tending to remain in about the same relative position to the group as a whole.

STABILIZATION OF EXCHANGE SEATS

46. (a) The total number of Exchange seats has remained constant since 1934. A member may hold no more than three seats; a member firm or corporation may have more than one member; one seat entitles the holder to five traders (see paras. 8, 9 and 13, Chapter 1). Accordingly, if the volume of trading conducted by a member firm reaches such proportions that the seat member and four attorneys are unable to handle that volume, the member firm will normally purchase an additional seat from another member.

(b) Distribution of Exchange Seats - As indicated below, the vast majority of member firms usually hold only one seat on the Exchange. Hereunder is set out the distribution of Exchange seats as at January 1st in each of the years 1947, 1952, 1957 and 1962:

TSE Seat Distribution	No. of Member Organizations as at January 1st			
	1947	1952	1957	1962
Member firm holding 1 seat	86	91	88	90
" " " 2 seats	6	6	8	7
" " " 3 seats	1	0	3	0
" " " 4 seats	0	1	0	1
Total member firms holding seats	93	98	99	98
Active Seats	101	107	113	108
Inactive Seats	12	6	0	5
Total Seats	113	113	113	113

There is little indication from the above as to any significant trend to either diffusion or concentration of seats among member organizations, or as to the relationship between active and inactive seats. Activity or inactivity of seats tends to be related to the current and prospective level of trading activity on the Exchange, which in itself varies widely from time to time.

(c) Authorized Non-Member Brokers - An authorized non-member broker is one who is not a member of the Toronto Stock Exchange but who maintains an office and regularly conducts a stock or bond brokerage business with the public, and who has signed the application and agreement furnished by the Exchange and has

been approved by the Board of Governors for split commission privileges.

This category was created when the Exchange recognized that, because of the many factors outlined in paragraph 38, some securities dealers in certain localities in Canada or elsewhere in the world might have an active interest in securities listed on the Toronto Stock Exchange, but the volume they could generate would not warrant the purchase of a seat. Many of these brokers located in Canada may be members of the B.D.A. or I.D.A. of C., although membership in such organizations does not of itself entitle them to the various non-member broker privileges. The split commission privilege entitles the broker to not more than one-third of the regular commission on his orders - the same privilege extended to all member firms of recognized stock exchanges.* While they carry out their exchange transactions through a member firm, these non-members must maintain their own identity and, in effect, stand on their own feet financially and otherwise.

The authorization of a non-member broker may be withdrawn at any time, whereupon he ceases to be entitled to the split commission. This in effect gives the Exchange some control over these brokers and encourages them to conduct their business according to the same standards as the members themselves.

*Recognized stock exchanges for this purpose at the present time are Montreal, Canadian, Vancouver and Calgary in Canada; all major exchanges in the U.S. and Europe.

Alternative methods of extending this privilege to this group have been considered in the past, and further study is being given the matter. For copy of non-member broker agreement, see Appendix No. 46.

INTERNAL ORGANIZATION OF MEMBERS

47. As outlined earlier paragraphs (40(d), there is a considerable variance among Exchange members in many directions. About one-half of the members are incorporated, while the remainder conduct their business on partnership or sole ownership lines. A few (8) have no affiliation with any other major securities organization but most are directly or indirectly affiliated with the Investment Dealers' Association of Canada (73), Montreal and/or Canadian Stock Exchanges (48), Broker-Dealers' Association (25), Vancouver Stock Exchange (10) or New York Stock Exchange (7). Many maintain no branch offices, but the majority have branch offices either in Ontario or elsewhere. However, insofar as the conduct of business associated with securities traded on the Exchange is concerned, most members maintain the following basic departments:

(a) Trading
(b) Sales
(c) Research and Portfolio
(d) Underwriting
(e) Administration

At Appendix 5 is an organization chart, which might be considered as the basic skeleton around which incorporated Exchange members build their organizations.

COMPETITION AMONG MEMBERS

48. With respect to the primary function performed by members of the Exchange, i.e., the transaction of purchases and/or sales of securities listed on the Exchange, their businesses are based on "service" to investors whether institutional or individual. Since the same scale of commission rates must be charged by all members, it necessarily follows that success in competition among members for business depends in varying degrees upon such factors as:

(i) Accuracy and speed of service

(ii) Quality and quantity of research information

(iii) Quality of portfolio advice

(iv) Range of service (i.e., knowledge of and access to various types of securities)

(v) Financial stability

(vi) Personal relationships

(vii) Ability, industriousness and integrity of principals and employees

Because of individual personalities, members vary in the emphasis which they tend to place upon these (and other) factors. Some deal only in industrial and seasoned mining and oil stocks; other specialize in mining and oil stocks. Some concentrate on institutional business, while others specialize in handling individual retail accounts. Some carry no margin accounts, while others do so.

CHANGES IN MEMBERS

49. It is interesting to note that of the 94 member organizations active in business at the end of 1951, twenty were no longer in business ten years later. Of these, four or five might be said to have ceased operations by reason of inability to meet Exchange requirements - financial or otherwise - while disappearance of the others appears to have involved factors which might be regarded as the normal course of events. It is equally interesting to note that of the 98 member organizations in business at the end of 1961, twenty four were not in business ten years earlier. These figures serve to indicate the changing nature of the Exchange membership and support the view that the business of members is highly personalized one with the character, personalities and abilities of the principals of primary importance in competition as between members.

EXCHANGE (AS OPPOSED TO MEMBERS') RELATIONSHIP WITH OTHER SECURITY ORGANIZATIONS.

50. Relevant By-Laws and Rules of the Exchange are applicable to affiliates of members who may belong to another security organization. Thus, an Exchange member who (or whose affiliate) is also a member of (for example) the Investment Dealers' Association of Canada is subject to the regulations of both the I.D.A. and the T.S.E. This requires a high degree of liaison between the Toronto Stock Exchange and other leading Canadian security organizations. The trend to integration in the securities industry, as discussed earlier, has intensified this need for liaison.

This liaison, in turn, has led, in recent years, to an increasing conformity in the regulations of all security organizations with a view not only to maintaining a high standard of ethics and business conduct in the industry generally, but also to facilitating dual or affiliated membership one with the other.

51. The Exchange believes that a high degree of harmony and co-operation exists between the leading securities organizations in Canada, and that this state of affairs will not only continue but will improve with further experience on the part of all concerned.

COMMISSION RATES

52. Changes in the schedule of rates charged have been made from time to time. In July 1960, the present single scale of commissions was adopted in place of the two separate schedules which had previously been used in covering "Industrial and General Securities" and in covering "Mining and Oil Securities". At the time the new schedule was adopted, the rates of commission were reduced substantially on shares trading below $4.00; other rates generally were left unchanged with some exceptions which resulted in slightly higher rates on mining and oil shares selling between $4.00 and $20.00 (see Appendices 34 and 35, and para. 60).

BLOCK TRADING AND SPECIAL COMMISSIONS

53. More recently, the Toronto Stock Exchange, in an attempt to discourage the large amount of block trading being done "off the floor" of the Exchange, passed a By-Law raising the size of "off the board" trades permitted from $25,000 to $50,000, and then again

from $50,000 to $100,000. With the most recent change, the rates of commission which must be charged were also changed so that all transactions must carry one full commission on each side, i.e., two commissions on put-throughs or one commission to each broker where two brokers are involved. Where the profit is expressed as the differrnce between net prices, the spread must equal at least two commissions. However, on special-size transactions of over $100,000 in value, the scale may be reduced to one and a half commissions over-all; on special-size transactions of over $250,000. the scale may be reduced to one full commission overall. It should be noted that trades off-the-floor may be made only with permission from the Exchange.

The sharp decline in stock prices has doubtless been responsible for the fact that the volume of block business has declined since the new By-Law has been in force. However, the effect in more stable markets will be watched with interest by the active block dealing firms.

COSTS OF HANDLING TRANSACTIONS

54. The cost of handling an individual order from the time the ticket to buy or sell is written out until delivery of the securities is completed varies widely from firm to firm. So many factors are involved with the many member firms that efforts to establish a satisfactory industry average have proven unsuccessful. It should be pointed out that a great deal of no-profit business has been undertaken by member firms with smaller investors, particularly in the Investment Club category,

more as a service in the hope that some day these small investors will become larger investors.

COMPARISON - NEW YORK AND
AMERICAN STOCK EXCHANGE RATES

55. The graphic illustration at Appendix 35 shows a comparison of commission rates between the Toronto Stock Exchange and the New York and American Stock Exchanges as a percentage of the price of the stock dealt in. While our rates, in the $0.15 to $4.00 range, expressed as a percentage of the price, are much lower than the corresponding rates for the two leading American exchanges, it should be pointed out that the number of stocks trading below the $5.00 level on both the New York and American Exchanges is considerably less than in Toronto, where a large number of lower-priced mining and oil issues account for a substantial portion of our volume (in 1961, the value of the average share traded on the Toronto Stock Exchange was $3.51 - comparable to $18.65 for the average industrial and $1.03 for mining and oil stock). Our rates are slightly higher than those in New York for stocks trading between the $5.00 and $30.00 level, after which price New York rates are again higher. Canadian rates become slightly higher again in the $80.00 to $250.00 range. Consideration has been given in the past to adopting a more flexible schedule of rates which would be more clearly linked to the dollar value of the dealings involved, but this was impracticable because of the large volume of dealings in our lower-priced issued.

SECURITY TRANSFER TAX

56. (a) Ontario and Quebec alone of the provinces impose taxes on the transfer of securities. Apparently, the tax in Ontario was imposed in 1911 simply as a source of additional revenue and not to defray the cost of a particular government agency. The rate is 3¢ on each $100 par value of bonds and debentures (with some exceptions) and the rate on equities is: 1/10¢ per share under $1.00; ¼¢ - $1.00 to $5.00; 1¢ - $5.00 to $25.00; 2¢ - $25.00 to $50.00; 3¢ - $50.00 to $75.00; 4¢ - $75.00 to $150.00; and, over $150.00 - 4¢ plus 1/10 of 1% of value over $150.00.

(b) The Toronto Stock Exchange acts as "agent" for the Provincial Government and collects from its members the tax payable on sales effected upon the Exchange.

(c) It is estimated that the Province of Ontario tax will have yielded in the last fiscal year $3,400,000; of this amount, just under $2,000,000 resulted from transactions on the Toronto Stock Exchange.

PUBLISHING MEMBERS' FINANCIAL STATEMENTS

57. Suggestions are sometimes made that stock brokers should be required to publish their balance sheets as do other financial intermediaries dealing with the public. It may appear that the Exchange is inconsistent and self-indulgent when it urges public companies to improve the quality of their financial reporting while, at the same time, it does not insist upon its members following a similar practice. Such is not the case.

A public company whose bonds or stocks may be

bought or sold at any time by the general public has a legal and a moral responsibility to provide the investor with current information as to the state of business of the company in which he has invested. A brokerage firm, however, is a private company with capital provided by only a few shareholders, and there seems no good reason for such a firm (any more than other private companies) to divulge its financial affairs to the public at large. True, it is in a sense a "financial intermediary", but the Exchange, through its strict audit procedure, ensures the financial stability of its members more effectively than would the publication of financial statements.

Therefore, the Exchange considers that whether or not a member firm's financial statement is made public is a matter for the firm itself to decide.

SEPARATION OF UNDERWRITING FROM BROKERAGE

58. In connection with the various functions of member firms, it has been suggested that the investing public might be better served if the underwriting and the brokerage operations of a company were segregated from each other. This would presumably require many firms now engaged in all phases of the business to set up one company for underwriting and another for the brokerage business. In many cases, this has already been done by a number of firms who have formed "affiliates", although, of course, in these cases, there is usually an identical ownership - and it should be noted that many of the Exchange regulations apply to such affiliation.

59. There may be a small area of conflict where underwriting, distribution of new issues and brokerage transactions take place within the same firm. However, this would appear to be more than offset by the advantages which an integrated firm possesses in the form of experience and knowledge of markets obtained through direct contact with the investor, on the one hand, and the company issuing securities, on the other hand. A meeting of minds takes place within the same firm rather than between two or possibly several firms. Separation of the underwriting, distribution and brokerage facilities of the industry would inevitably increase the cost of handling securities. The research, statistical, delivery and other services now customarily provided by an integrated firm would have to be duplicated by firms engaged in each segment of the industry. Even in the United States, where extreme measures have been taken to protect the public (often ineffectually), it has not been considered practical or prudent to separate the investment community into arbitrary compartments. Members of the stock exchange take care to differentiate between securities which they may own and are reselling to clients as principals and/or the purchase and sale of securities strictly on a brokerage or agency basis.

The Exchange considers that there should be no change in the present policy.

"SPLIT" COMMISSION PRIVILEGES

60. It may be helpful to give here a few notes on By-Law No. 31 (Appendix 34) insofar as it refers to sharing or splitting commissions:

(a) Where a transaction is made by one member for another member, partner, director, etc., and the "transactor" gives up the name of the member, etc., for whom he is acting, the minimum charge that may be made is one-tenth of the regular commission with a minimum of 25 cents (By-Law 31 - 3).

(b) Where the "transactor" also clears the transaction, the minimum charge shall be one-fourth of the regular commission with a minimum of 25 cents (By-Law 31 - 3).

Note: Transactions as in (a) and (b) are known as jitneying.

(c) On transactions by a Toronto member made for a member of the Montreal Stock Exchange, the commission charged shall be not less than one-half the regular commission (By-Law 31 - 5).

(d) On transactions made by a Toronto member for members of practically every other stock exchange in the world, the commission charged shall be not less than two-thirds of the regular commission (By-Law 31 - 5).

(e) On transactions by a Toronto member for members of the Vancouver, Calgary and Winnipeg Stock Exchanges in certain mining and oil securities listed in T.S.E. Rulings Nos. 12, 14 and 33, respectively, the commission shall be not less than one-half the regular commission (By-Law 31 - 5).

(f) In addition to the above, on all transactions made by a Toronto member for a "non-member" broker, the commission charged shall be not less than two-thirds of the regular commission.

A "non-member" broker is defined as "one who maintains an office and regularly conducts a stock or bond brokerage business with the public, and who has signed the application and agreement form furnished by the Corporation and has been authorized for split commission privileges (as above) by the Board of Governors (By-Law 31 - 6).

CHAPTER III

PERSONNEL - CATEGORIES, QUALIFICATIONS, ETC.

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PERSONNEL

61. While the personnel of member organizations vary greatly according to the nature of the business of member organizations, the three categories of a) sales, b) research and analysis, and c) trading and clerical, are clearly discernable throughout the industry. The most significant trend in recent years has been the greater emphasis placed on research and analysis both as a necessary service for the use of the sales force and an adjunct of underwriting departments.

SALESMEN AND CUSTOMERS' MEN

62. Member organizations and their affiliated companies employ some 1,682 persons in Canada who are engaged primarily in the sales and service portion of the business. There are four categories within the industry; the distinction between them, due to evolutionary changes within the industry, may now be more apparent than real.

(a) Customers' men employed by member organizations are engaged primarily in the solicitation of listed securities business. They are remunerated by salary or a proportion of the commission earned by the firm. They are regarded, and so regard themselves, as providing services to customers by way of information concerning securities and the handling of orders. As their firms may do little or no underwriting, they are not normally engaged in selling new security issues to the public. There are 746 customers' men employed in Canada.

(b) Salesmen are typically employed by member organizations or their affiliates holding membership in the Investment Dealers' Association of Canada. They are engaged primarily in the sale of bonds and debentures and new equity issues, but, to an increased extent, incidental to their duties, may solicit or receive orders in listed securities. There are 869 such bond salesmen employed in Canada by member organizations and affiliates. They are likewise remunerated by salary and/or commissions.

(c) In addition, there are some 356 persons employed by member organizations and affiliates who are registered to deal with the public, but who perform other duties such as those of secretaries, analysts, office managers, etc. The registration and qualification with the Exchange permits them to receive a portion of the commission earned in listed securities business.

(d) There are 67 mutual fund or investment fund salesmen employed in Canada. As the majority of mutual fund and investment fund shares are sold by their own sales organizations, sales by members are not considered to be significant.

QUALIFICATION OF CUSTOMERS' MEN AND SALESMEN

63. The Ontario Securities Act and similar statutes of other provinces provide for the registration of persons trading in securities who may deal with the public. None of the Acts specify any qualifications, however. The Toronto Stock Exchange, in conjunction with some other Canadian stock exchanges, has provided that the employment of such persons must be subject to the approval of the Exchange concerned and that approval may be revoked, whereupon the person's employment must be terminated by the member. It maintains its own register of these employees so that a record is available of their history in the business.

EXAMINATIONS SET BY EXCHANGE

64. The Exchange asks that all new entrants into these categories should have a minimum of three months' experience and have passed a written examination set by the Exchange and designed to test their knowledge of the relevant Securities Acts, By-Laws and Rulings of the Exchange which are applicable to their conduct, and their general knowledge of the securities business. By arrangement with the I.D.A. of C., employees of members are permitted to take the courses of that Association, and many do so each year.

MEMBERS RESPONSIBLE FOR ACTS OF EMPLOYEES

65. While the training and instruction of applicants of all categories is left to the individual member organization, there is an overriding responsibility

to the Exchange in this area, as each member is responsible for the acts or omissions of all employees. Conduct on the part of a customers' man or salesman in the handling of a customer's account which would be considered unethical conduct on the part of the member is so regarded and dealt with, in matters of discipline, as though it were the conduct of the member himself. No customers' man or other employee is permitted to handle discretionary orders or accounts.

66. The educational attainments of sales personnel appear to be higher than in previous periods, as a larger number of persons with university training are attracted to the business. This may be due partly to the greater stability of the industry during the period since World War II. No doubt it is also a reflection of the higher skills and qualifications of the investment managers of members' more important clients such as institutional investors, pension funds, etc.

RESEARCH AND ANALYSIS

67. More than half the member organizations of the Exchange maintain departments of this type of greater or lesser strength. They are regarded as a valuable adjunct to the servicing of and sales to all investors, and particularly institutional investors. This is an expensive type of service provided by member organizations, and one where the quality of the service is highly competitive. Larger organizations engaged in underwriting and distributing new issues, including

government and industrial bonds and debentures as well as equity securities, will have Underwriting Departments, which may overlap, to some extent, the functions of the Research Department. The specific knowledge of companies in Canadian industry possessed by a senior analyst can only be acquired over a period of years, and persons capable of acquiring such skills are much in demand. Recruitment is almost entirely from university-trained persons, and, in recent years, the industry has attracted a number of very competent people in this area. Considerable amounts are also spent by some members on specialized advisory and statistical services.

TRADING AND CLERICAL

68. Trading personnel, both on the trading floor and on the trading desks in members' offices, do not require as extensive an educational background, but are possessed of trading skills by experience and training which qualify them for this particular kind of work.

69. As trading by telephone on a bond desk or a stock desk involves considerable responsibility for dealing in sizeable sums of money, most of the traders in this position have been with the firm for a number of years and are well-known to their counterparts in financial institutions and other members.

70. Floor traders, of which there are 373 at present, are also known as attorneys, as they are authorized by a power of attorney from their member to make binding contracts in the name of the member.

Their duties are concerned primarily with the execution of orders on the trading floor. While employees of member organizations or partners or directors of them, they are also subject to the discipline of a Floor Procedure Committee which has the power to fine, suspend or expel the individual trader found guilty of violation of a trading rule or unethical conduct. The trading rules are designed to ensure that customers' orders have priority in the market over orders of all personnel of member organizations and their affiliates.

71. Senior clerical employees now have higher qualifications than they had a few years ago due to the increasing complexity of the business and the use of data processing equipment, although Exchange members are still very large users of unskilled or semi-skilled personnel.

72. The total number of personnel employed by members at the end of 1961 was:

	Male	Female
In Toronto offices	1,807	760
In other offices	1,351	625
	3,158	1,385
	1,385	
Total	4,543	

Note: For firms holding their principal membership in a foreign stock exchange, the above figures include only partners, directors and employees at Canadian branches.

73. Due to the fluctuating volume that is characteristic of the brokerage business, a prime necessity is to reduce fixed overheads as much as possible and to be in a position to expand staff when required. For firms with sufficient basic volume of business, data processing equipment of the punched-card type seems to offer a partial solution. Data processing centres established by equipment manufacturers have attracted a number of more modest-sized firms. These developments have reduced dependence upon unskilled or semi-skilled clerical personnel, and these trends, even more noticeable in the United States, are expected to continue.

CHAPTER IV

CLIENTS AND SHAREHOLDERS - HOW OBTAINED, ETC.

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OBTAINING CLIENTS

74. The investment and/or speculation of money by shareowners is a highly personal matter. It therefore follows that the relationship between members of the Exchange and their clients is a personal one in the nature of a trust, comparable to the relationships that exist between other professional groups and their clientele. Every transaction involves some degree of personal communication between the two parties or their respective representatives. Moreover, this personal aspect, to a large extent, determines the manner in which Exchange members can attract and hold their clients.

ONTARIO GOVERNMENT CONTROL

75. The Securities Act of Ontario (Sec. 53) prescribes conditions under which members of the Exchange (and their employees and agents) may solicit business from the public.

76. The effect of these regulations is to place certain restrictions on Exchange members in soliciting business. The obtaining of clients is usually a subtle matter requiring a high order of social skills in seeking out and developing personal contacts with potential investors. Memberships in clubs, participation in community activities of various kinds, and referrals from existing friends and established clients, are among the many ways in which Exchange members go about building up a clientele.

BOARD ROOMS

77. Many Exchange members maintain "board" rooms (i.e., boards with prices posted thereon) in conjunction with their offices, and this also provides a means of establishing personal contacts with business, executive and office workers in the adjacent area. In more recent years, however, there has been a trend away from board rooms in conjunction with Exchange members' operations, with the result that this has become a less important means of attracting clients.

ADVERTISING BY MEMBERS

78. Most Exchange members advertise their services in local newspapers and, in a few cases, in national magazines, by radio and television. Radio and television advertising usually takes the form of sponsoring a news broadcast type of programme in which general market information and quotations are given; the broker is not permitted to recommend the purchase of any particular stock, nor to give a forecast of probable market movements. Such advertising must be low-keyed and dignified, as, under the By-Laws of the Toronto Stock Exchange (47 and 51), advertising by members is carefully regulated.

DISTRIBUTION AND CHARACTERISTICS OF INDIVIDUAL SHAREOWNERS IN CANADA

79. (a) No comprehensive investigation of share ownership by individuals in Canada has ever been made to the knowledge of the Toronto Stock Exchange. Consequently, there is no precise statistical evidence

of the extent of share ownership in Canada or of the occupational characteristics and income levels of individual shareowners. As mentioned later on, some indications of these aspects of share ownership may be deduced from taxation statistics, but such indications are necessarily very broad and leave much to be desired from the standpoint of being a definitive analysis.

(b) In 1961, the Toronto Stock Exchange engaged Elliott-Haynes Ltd. to do a public opinion survey in Metropolitan Toronto to measure, among other things, the extent of public participation in the stock market. The following information was disclosed from interviewing 700 adults (men and women) in the upper, the upper middle and the lower middle income groups (the lower income group not surveyed constitutes about 20% of the national total):

(i) In stating a choice of investments thought best for Canadian families - 48.6% said Government Bonds
21.1% " Life Insurance
16.7% " Mortgages
6.1% " Bank Account
5.9% " Real Estate
5.0% " Common Stock

(Note: Some gave equal rating to two types of investment.)

(ii) 52.4% had never owned any common stock
30.4% now own stock (34.3% men; 26.5% women)
17.2% do not now own, but have in the past owned, stock

It must be appreciated that the above information is of little use in trying to read the national attitudes.

(iii) It would be useful to have reasonably accurate nation-wide statistics on share ownership and on the factors which influence investors in their choice of securities. It is suggested that this project might be undertaken by the Dominion Bureau of Statistics, say on a quinquennial basis.

DISTRIBUTION AND CHARACTERISTICS OF INDIVIDUAL SHAREOWNERS IN U.S.A.

80. By comparison, a number of surveys of share ownership in the United States have been made, which have shed considerable light on that subject in that country. In view of many similarities between Canada and the United States in terms of economic development, political philosophy, financial institutions and standards of living, it would not be unreasonable to suggest that the incidence and pattern of individual share ownership in Canada broadly parallels that of the United States. For that reason, the following information is included in this brief.

81. In 1951-52, the Brookings Institute, in co-operation with the New York Stock Exchange, made the first comprehensive investigation into the ownership of business and industry in the United States. This survey was followed up in 1956, and again in 1959 and 1961, by a census of shareowners made by the New York Stock Exchange. A comparison of the results of these investigations affords informative insight into the kind of share ownership in that country (see Appendix 16).

TYPICAL SHAREHOLDER

82. From the data in Appendix 16, a picture of a typical shareowner in the United States may be drawn. The person is likely to be about 50 years of age, to have an annual income in the $5,000 to $10,000 bracket, to have had some college training, and to be either a housewife in the case of women shareowners or engaged in a managerial or professional capacity in the case of men shareowners. In addition to their shareholdings, he or she is likely to have life insurance, a savings account, U.S. Government bonds, and to own their own home. In view of the similarities between Canada and the United States as pointed out above, it would be not unreasonable to suggest that the picture of a typical Canadian shareowner would bear a resemblance to his United States counterpart.

SHAREHOLDERS BY INCOME GROUP

83. According to the "1961 Taxation Statistics of the Department of National Revenue, Canada" which reports on 1959 tax returns, indications are that a larger percentage of individual taxpayers in the higher income brackets are shareowners compared with those in the lower income groups. This seems only logical to expect, because taxpayers in the higher income groups have a higher propensity and opportunity to save than taxpayers in the lower income bracket. For the same reason, dividend income of individual taxpayers in the higher income groups forms a larger proportion of their total income compared with those in the lower income groups. In 1959, dividend income

for all individual taxpayers averaged 1.7% of total income, while the amount of dividend income averaged $70 per individual taxpayer.

BY OCCUPATION

84. Based on the same taxation statistics, share-owners are to be found among all occupational groups, but certain tax-paying occupational groups would appear to contain a higher percentage of shareowners than others. Occupational groups with higher-than-average dividend income, both in terms of absolute amount and as a percentage of their total income, are accountants, medical doctors and surgeons, dentists, lawyers and notaries, consulting engineers and architects, proprietors of financial businesses, investors and tax-paying pensioners. It would seem to be significant that such occupational groups are also groups requiring higher levels of education to qualify for their occupations. (For detail of taxation statistics, see Appendix 17).

INSTITUTIONS AS SHAREHOLDERS

85. We have been speaking of individuals as clients, but another and very important type of client is the Institution, i.e., mutual funds, insurance and trust companies, banks and pension funds. For the extent of holdings by institutions, see Appendix 14. Mutual funds of the open-end type are the largest single type of institutional client in the market today.

HOW STOCK BUSINESS ALLOCATED

86. Large institutional accounts do not normally confine their business to a single member of the stock exchange. The manager of the investment department of a large institution is in constant contact with several salesmen and stock traders at a variety of firms. Before making a large purchase or sale, he will obtain bids or offerings from several sources. The large institutions usually maintain their own stock research and statistical departments.

FINANCING CLIENTS' ACCOUNTS

87. The Toronto Stock Exchange, in common with other exchanges in Canada, permits the purchase of stock on a margin of 50% of the purchase price provided it is over $1.00 per share, and this percentage must be maintained at all times. The relevant Toronto Stock Exchange regulation and margin agreement is at Appendix 15. It should be noted that this is a self-imposed regulation and is rigidly enforced. The Exchange staff of Examiners are constantly doing "spot checks" in addition to normal audits, to ensure that members are keeping clients' accounts properly margined. It is interesting to note that some twenty members of the Toronto Stock Exchange carry no margin accounts.

88. United States Practice: The United States Federal Reserve Board determines from time to time the percentage of initial margin required, and, at present, it is 50% of purchase price. The stock exchanges set the minimum margin requirements to be maintained, and, at present the New York and American Exchanges require 20%. Hence, our requirement of 50% to be maintained is more stringent than in New York.

89. Canadian Experience: There has been nothing to indicate that regulations beyond those now imposed and exercised by the Exchange itself are necessary. The terms of credit are, of course, already effected, if not actually controlled, by the Bank of Canada's influence on interest rates.

INSTALMENT BUYING

90. The Toronto Stock Exchange, by various methods described elsewhere in this brief, encourages Canadians to buy equities, but only if they are able to pay for them.

91. United States System: The New York Stock Exchange has been sponsoring a monthly stock purchase plan, but, in their system, when a client makes a payment, his broker actually buys shares or fractions of shares and, thus, the stock is bought at the price then prevailing and it is fully paid. The investor buys stock by "dollars worth" rather than by the share - there is no credit involved and there is no penalty and no loss if the investor fails to make a monthly payment. Because of the size and density of population, there is apparently a sufficiently large number of

"small" buyers to make it a practicable plan. This would not be so in Canada, although it may be at a later date. The New York plan is feasible because there are two "odd-lot" brokers who do the major portion of the bookkeeping and accounting, thus minimizing the cost of handling these small accounts.

92. The Toronto Stock Exchange considers it is potentially dangerous to encourage investors - particularly new and small investors - to buy stock on a time payment plan for several reasons:

(a) It is not considered sound investment to buy stock at today's prices and pay for it over several months in the future. The dollar averaging system is recognized as the sound system of investment, i.e., buying at the price prevailing at the time cash payment is made.

(b) The investor must pay high interest rates on the unpaid balance whilst his stock is usually earning much lower interest rates.

(c) If the investor is unable to keep up his payments, he must be sold out - probably sustaining loss and, thus, this leading to recrimination against the broker and a bad impression of equity investment.

(d) It is economically impossible in Canada at present for a broker to adequately service such an investment plan and the clients concerned.

IMPACT OF INSTALMENT PURCHASE PROGRAMMES

93. The impact of the monthly investment plans which have been initiated by various stock exchanges would appear to be very slight. Even the New York plan, which is probably the most successful, has had little effect on the investment community. Total purchases under the New York plan during the past eight years were only $233 million, compared with the total trading value of about $52,700 million during 1961 only.

"FREE RIDING"

94. In the investment industry, the term "free riding" refers to the practice of buying stock on an "if, as and when" issued basis. The practice is usually carried on in new stock issues in the period before payment is required and where a price rise is expected. Clients who have bought stock on an "if, as and when" issued basis are not required to pay for the stock until the actual certificate has been received, and this usually varies from two to five weeks. Although the practice of "free riding" is detrimental to legitimate investors, it would be very difficult to eliminate by regulation and it should probably be left as it is now, i.e., to the individual member involved to attempt to eliminate the practice by not selling new issues to known "free riders" - and they do become quickly known.

95. "Free riding" interferes with the marketing of new issues because it results in the "freely ridden" stock being sold immediately after the issue, thus disturbing the market. In order to maintain or restore

stability in the market for the new stock, the issuing dealer must then buy back a portion of the stock he has sold. The percentage of the total issue which is sold back to the dealer by "free riders" can vary widely.

96. Preferred Treatment: The extent to which established retail and institutional buyers receive preferred treatment at the time of a new issue differs greatly. As in all businesses, long-established active retail and institutional accounts usually do receive preferred treatment with regard to size of allotment, etc., during new issues. Of course, this practice will not be carried to the extent that prevents the firm from attracting new clients.

CHAPTER V

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PART 1

TYPES AND FACTORS AFFECTING PRICE

TYPES OR CLASSES

97. Shares are divided into two principal classes, Preferred and Common.

98. The Preferred Stock carries a voting privilege only under certain circumstances; normally, it has a cumulative, fixed rate of dividend with a "preference" or prior claim over dividends on the Common; it also has a prior claim over Common - but a claim junior to bonds or debentures - in case of liquidation of the company's assets; its dividend payments are the subject of decision by the directors, whereas interest payment on a debt security (bond) is a fixed charge on company assets or earnings. Preferred dividends, however (as well as Common), are eligible for the 20% dividend tax credit allowed to Canadian individual shareholders; bond interest is not so eligible.

99. There are various types of Preferred - cumulative, i.e., dividends in default are carried forward; non-cumulative; participating, i.e., having a share in profits after Common dividend is paid; non-participating; callable, i.e., may be redeemed at certain prices; and non-callable.

100. Some factors affecting the price of Preferred are the security of the dividend (company earnings); the level of prevailing interest rates; the presence of a sinking fund; and the call price. Usually, the price on high quality Preferred will fluctuate with the level of interest rates; the price of low quality

Preferred will vary with the state of the company's affairs.

101. The Common Stock usually does carry a voting privilege*; its dividend is fixed from time to time by the directors, and this is usually related to the earnings. Investors buy Common for two reasons - dividend income and capital appreciation. The price of the shares will vary in accordance with the opinion of the investors as to the potential of the company. This potential is affected by many factors - some of which are quite unpredictable - e.g., the decline of international oil stocks in 1956, newsprint stocks in 1958 and uranium in 1959. These declines all resulted from reduced earning potential through unforeseen circumstances.

*although a company may have various "classes of Common Stock, "A", "B", etc; one class may have a voting privilege and another class not; one class may be entitled to a limited dividend or may have its dividend deferred until certain stipulations have been met.

FACTORS AFFECTING SHARE PRICES

102. (a) The industry of which the company is a part. If the industry is likely to prosper, the company should get a share of it. E.g., Is the industry serving a growing or declining market? Is the industry likely to meet more or less competition, domestic or foreign? Are government policies or regulations apt to restrict or free the industry? Etc/

(b) Earnings record. The past earnings of a company must be studied with the object of finding the trend of profits. After making allowance for changing circumstances, attempts are made to project past trends into the future.

(c) Management. Management of a company is one of the most important factors to be considered when assessing a stock. The past record of a company is usually a good indication of the ability of management. By diversification and many other methods, good management can often rapidly build up the earnings of the company which has a poor record of declining sales and profits. Conversely, poor management can be highly detrimental to a growing profitable firm.

(d) Analysis of Financial Statements. An analysis of a company's financial position and the trend in working capital and cash flow is important. Capitalization and the possible effect it might have on the earnings available for the common stock under various circumstances must be considered, and also various statistical financial relations such as profit margins, return on invested capital and the exact composition of the company's capitalization, i.e., debt, preferred stock and common stock.

(e) Psychology. Psychology also plays an important part in the level and trend of stock prices. This is evidenced by periodic erratic fluctuations in stock prices caused by the temporary placing of too much emphasis on a single determining factor, which, when removed, momentarily disturbs the market. Recent examples of this were the over-emphasized atmosphere of risk and uncertainty surrounding common stocks in 1949 when yields in excess of 10% were available on relatively good quality stocks. This attitude entirely reversed itself in the following five years, and we may now be emerging from a period when too great an emphasis was placed on the possible long-term growth in earnings and too little weight to the uncertainties involved in predicting potential, i.e., projecting past growth trends into the future.

"YIELDS" AND "PRICE:EARNINGS RATIO"

103. There are two major indicators used by investors in appraising the present and future earnings power and dividend-paying ability of a specific stock. These are a) yield, b) price:earnings ratio.

104. Yields on investment grade common stocks vary in a wide range. In general, if a stock rises to the point where the yield is negligible, it is an indication that investors believe that the earnings of the company will grow to an extent that will permit an increase in the dividend to an amount where the yield

will rise to justify the high price of the stock. Conversely, if the yield on a stock is extraordinarily high, it is an indication that investors believe the earnings of the company will decline and necessitate a reduced dividend, thus reducing the yield on the stock to a normal relative level. Many stocks in Canada are now selling at 20 times earnings to yield less than 3%; the investor is hoping earnings and dividends will increase and thus reduce the price: earnings ratio and increase the yield.

PART II

THE DEMAND FOR EQUITIES

INFLUENCE OF INSTITUTIONS GENERALLY

105. The growth in demand for equities over the past decade and the increase in holdings of stocks by financial institutions in Canada are subject of great interest and importance, but for which only limited statistical information is available. The growing institutionalization of personal savings has mainly resulted from a) the introduction of pension funds into most business organizations, b) a strong public demand for mutual funds shares, and c) life insurance; all generated by the steady increase in personal income which has taken place since the Second World War. These consumer savings flow into the various institutions and are invested by experienced portfolio managers. The skill of these experts in arranging the investment of such massive amounts of funds has contributed greatly to the orderly functioning of the market. For this reason, the institutionalization of personal savings is in many ways to be welcomed and encouraged. The increasing scale of equity purchases by these institutions (see Appendix 7) has no doubt been caused to some extent by the high rate of economic growth and attendant inflationary forces experienced in Canada in the post-war period.

PENSION FUNDS

106. There has been a very substantial growth in pension plan underwriting since the end of the Second World War, especially in trusteed and insurance company

plans, and funds from these sources contribute importantly to the demand for equities. Certain changes in the laws governing the investment of these funds have also been an important factor. The Amendment to the Act passed in 1956 governing pension funds in Canada now frees trusteed pension plans from a previous requirement which limited their investments to those legal for insurance companies; furthermore, the ceiling of 15% on the proportion of equities held was removed at that time. In 1960, the law governing insurance company annuity underwritings was altered, with the same limitations being removed. Many pension funds have adopted a policy of dollar averaging, and this type of programme has the effect of creating a steady demand for equities and giving a certain amount of stability to price levels.

107. According to the Dominion Bureau of Statistics, trusteed pension plans of incoporated companies in 1952 held $52 million in Canadian preferred and common stocks, or 7.2% of the total portfolio. By 1960, this figure had risen to $239 million, or 11.1%. These figures account for only the trusteed pension plans of incorporated companies, which, however, are by far the most important single factor within the pension group.

108. Appendix 7 illustrates the very rapid growth in pension plans in Canada during the post-war period.

MUTUAL FUNDS

109. Mutual Funds have become the greatest source of demand for equities amongst all institutional buyers in the post-war period. Figures as to the growth of these funds are shown in Appendix 8.

110. The "open-end" funds have been the major contributors to the growth of this group, with the "closed-end" funds participating only to the extent of switching between equities and bonds or raising new capital as a result of new financing, both of which to date have been relatively unimportant during the period reviewed.

111. Much has been said about the growing power of the mutual funds and pension funds, and the danger of the large equity holdings of these groups from the standpoint of being a potential threat to the stability of the stock market through injudicious and untimely buying and selling of large amounts of stocks. However, experience shows that these organizations are well qualified as investment managers and, while their stock purchases and sales have an important bearing on market activities, they are supervised by experienced fund managers and are not the disturbing factor many observers believe them to be. The majority of their sizeable purchases and sales are dealt with in an orderly manner, and, in the recent record market decline in the New York market in May 1962, instiutional investors were given high praise for their market performance. It is well know that large and small mutual funds were heavy buyers and that

institutions generally played a major role in arresting the market decline. We believe that a similar pattern was followed by the funds in Canada.

N.R.O. FUNDS

112. Another important demand for Canadian equities developed in 1954 through the establishment of Canadian incorporated non-resident owned mutual funds (familiarly known as N.R.O. Funds), whose shares were primarily offered to residents in the United States. These funds were designed for U.S. investors in view of certain tax advantages which accrued to them under United States tax laws. Up to the present, U.S. holders of shares of these N.R.O. funds have received special tax treatment under U S. laws in view of the fact that the income and capital gains are not distributed to shareholders, with the result that shareholders only become liable for U.S. taxes when they redeem or sell their shares. It is now proposed in the United States that tax laws be changed so that shareholders of N.R.O. funds be taxed on the same basis as shareholders in U.S. incorporated mutual funds. For this reason, these funds have lost much of their popularity and, through net redemptions, some liquidation of their portfolio investments has taken place. Furthermore, if this new tax basis becomes effective, the advantages of N R.O. funds to U.S. investors would be greatly reduced and share redemptions could present a major problem to the Canadian market as a result of forced liquidation of large holdings of Canadian equities. However, it is understood that many N.R.O. funds have been building

large cash reserves through the sale of equities over the past several months in the event that the above-mentioned change in tax laws will be made. This should be effective in reducing any future selling pressure on the market from this source.

LIFE INSURANCE COMPANIES

113. The proportion of assets invested in common stocks by the life insurance companies is very small indeed and well below the 15% statutory limit established in 1932 under the Canadian British Insurance Companies Act. Appendix 9 shows the percentage distribution of various categories of life insurance companies' assets. It will be noted that the total holdings of Canadian preferred and common shares for the year ended 1961 was 1.5% of investment portfolio. This proportion has remained constant for a technical reason due to the "valuation risk" rather than due to the true opinion of common stocks as long-term investments. If insurance legislation respecting the year-end valuation of equities on the basis of market value were changed and the insurance companies were given greater latitude in the selection of their investments, it might encourage the placing of a higher proportion of their assets in the form of equities.

RELUCTANCE OF CANADIAN INSTITUTIONS TO BUY EQUITIES

114. It is also true, of course, that, on the other side of the picture, many buyers of securities, particularly institutional buyers, have been reluctant to place their funds in common stocks. Legislation in Canada pertaining to the employment of funds by investment companies, trust companies, etc., has greatly restricted equity investment, and, in addition to this, the traditionally conservative attitude of Canadian investors has had the effect of limiting participation in new or unseasoned issues.

115. A recent example of the extent to which equity participation has developed in the United States may be instanced in the case of the Endowment Fund of Harvard University, which, last year, had a value of some $750 million. Of this amount, 40% was invested in common stocks. In some other instances, endowment funds are almost fully invested in common stocks, but, in any case, the average is very much higher than is the rule in Canada.

116. In this country, our banking system is such that the banks operate mainly in the short term and to a very limited extent in the long term money markets. They do not, as a rule, take an active participation in equity investments. The rapid and extensive development of the United States in the 19th and early 20th Centuries was no doubt assisted by the flexibility and wider investment interest of their banking institutions.

TRUST COMPANIES

117. Trust companies have become a very important factor in the demand for equities, but, unfortunately, complete statistics in this sector are not available. Administered funds consisting of estates, trust and agency funds make up the greatest proportion of total assets under administration, as may be seen from the following table:

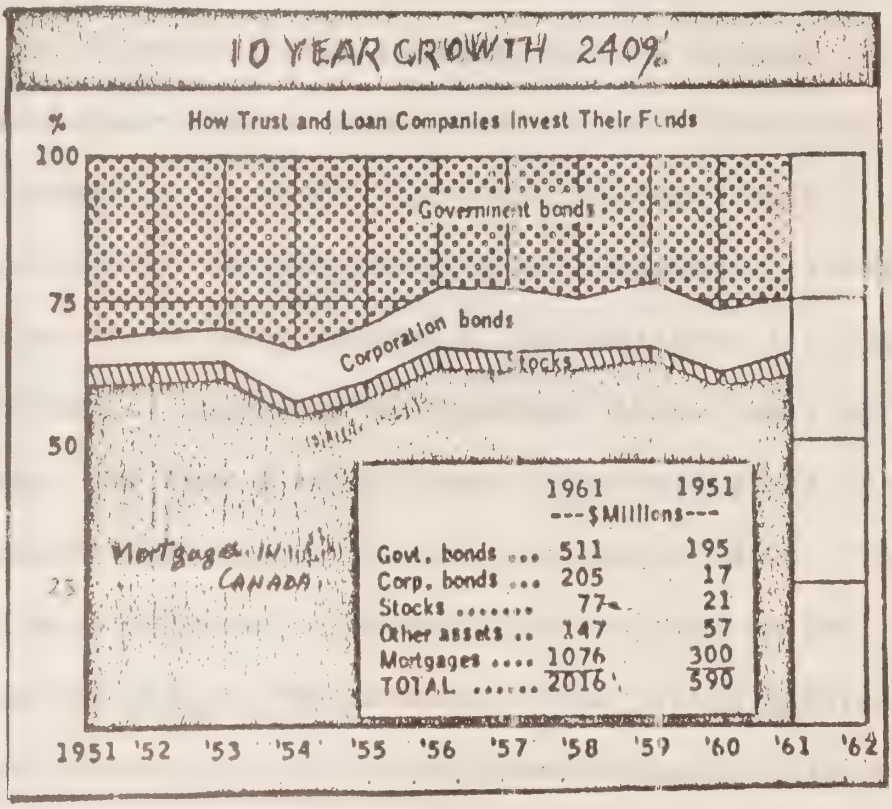
Total Assets Under Administration
By Members of Trust Companies Association of Canada

	1961 $	1960 $	Change %
Company funds	185,630,930		+ 16.5
Ordinary deposits	612,144,007		+ 32.3
Guaranteed invest. certificates	797,711,248		+ 17.5
Interest due and accrued	9,125,312		+ 80.7
Estates, trusts and agency funds	8,142,835,374	7,390,429,637	+ 10.2
Total	9,747,446,871	8,696,218,888	+12.1
Operating Results			
Income	80,681,065	70,474,543	+ 14.5
Expenditure	59,229,283	52,974,379	+ 11.8
Gross profit before inc. taxes	21,451,782	17,500,164	+ 22.6
Net profit after inc. taxes	11,874,105	10,041,778	+ 18.2

Source: The Financial Post, June 2, 1962.

118. Of the total assets under administration, estates, trusts and agency funds represent $8,142,835,374 and, although no break-down of this figure is available, undoubtedly a large proportion of this amount is invested in equities. The proportion of the remainder of trust company assets which are invested in equities is very modest and has shown very little trend in recent years. From the

figures shown in the chart below, it will be seen that the demand from this latter source is of relatively little importance



Source: The Financial Post,
June 2, 1962.

119. There is a paucity of statistical information available as to the investment of funds administered by Trust Companies, and it might be helpful if more information could be made available concerning such investments.

NON-RESIDENTS

120. Since the end of the Second World War, a very substantial flow of foreign funds has been placed in equities in Canada, both in direct and portfolio investment. Direct foreign investment in Canada has largely been in our natural resource and manufacturing industries. Without this large foreign participation, it is doubtful if the expansion in our economy could have taken place to the extent that it has. Portfolio investment in the post-war years has also been substantial, especially by U. S. investors. Investors in the United Kingdom and on the Continent also made substantial purchases of Canadian stocks, but, in recent years, the demand has dropped considerably and is currently resulting in a net outflow of funds. This may be attributed to several factors such as the floating rate on the Canadian dollar which existed until recently, withholding taxes imposed on non-resident holders of Canadian securities and the fear of Government expropriations of certain public utilities. Figures for 1962 on the ebb and flow of security transactions with non-residents are not available, but it would seem evident that the demand for equities by non-residents from all sources is now running at a net debit and has resulted in a large withdrawal of funds from Canada.

121. The following table shows that, up to the end of 1961, there was on balance an inflow of funds from international transactions in Canadian stocks, but we believe that, in 1962 to date, this trend has been reversed:

Security Transactions Between Canada and Other Countries

Net Sales (+) or Purchases (-)	1954	1955	1956	1957	1958	1959	1960	1961
Canadian Securities				(Millions of dollars)				
Trades in outstanding stocks	+129	+138	+188	+137	+88	+110	+49	+40

Net Sales of Outstanding Canadian Stocks to Non-Residents

(Millions of dollars)

Quarter		Total	United States	Other Countries
1960	I Q	13	5	8
	II Q	24	22	2
	III Q	10	14	- 4
	IV Q	2	13	- 11
1961	I Q	13	21	- 8
	II Q	32	45	- 13
	III Q	-	22	- 22
	IV Q	- 5	32	- 37

121b. Since the above was written, the D.B.S. has issued figures indicating that, in the first five months of 1962, there was a net capital outflow of $88 million from trades in all outstanding securities, compared with a capital inflow of almost the same size in the same period last year. In May alone, foreigners sold to Canadians a net of $15,300,000 in Canadian stocks - the largest monthly re-purchase balance since the Second World War.

CONCLUSIONS

122. Statistics are not available which provide a break-down of the proportion of stock business accounted for by each of the main classes of financial institutions such as pension funds, mutual funds and trust and life insurance companies. However, in a 1962 publication, the New York Stock Exchange FACT BOOK, institutions and intermediaries for the first time in eleven studies accounted for approximately 25% of the share volume on the New York Stock Exchange in September 1961, while slightly more than 50% was accounted for by transactions of public individuals.

123. While no comparable statistics are available for the Toronto Stock Exchange, we believe that much the same pattern applies and, of total share volume, the individual investor still accounts for the greatest proportion.

124. The Stock Exchange sees no reason to recommend a change at the present time in the investment activities of Pension and Mutual Funds; however, the Exchange is concerned about the lack of adequate supervision, control and training of salesmen for Mutual Funds. It is hoped that the Funds or their Association will take early steps to correct this weakness and so raise the standard of their selling organizations.

124a. The Toronto Stock Exchange believes that it is desirable for Canadian stock ownership to be broadened, and that a downward revision of the present tax structure is necessary to strengthen the economy and encourage new investment in Canada. The importance of foreign capital in contributing to Canada's post-war development cannot be overlooked, and, if the country's development is to continue at an appropriate rate, foreign capital in large amounts will continue to be a necessary requirement. To assure that it will be available, confidence in the future of Canada and its monetary and fiscal policies must be restored and maintained.

NON-FINANCIAL CORPORATION

125. Unfortunately, statistics to indicate the extent of the demand for stocks by non-financial corporations are non-existent. As a result, any observations of activity in this area can only be based on the general experience of Exchange members, which indicates that, with certain exceptions, these corporations are not stock buyers.

126. Among the exceptions are certain industrial companies which, for a number of reasons, have become partly "investment trusts" in character. However, such companies are not under pressure to invest a regular flow of funds, nor are they exposed to redemption of their share capital and accompanying involuntary liquidation of portfolio investments, as is the case with mutual funds.

127. Other exceptions are found among a number of mining and oil companies whose reserves have become partly or wholly depleted. To offset the effect of this

depletion, excess funds are invested in the shares of other companies, usually of those engaged in the same field. Share acquisitions of this kind are sometimes made on the basis of holding for the long term, but, in other cases, these companies do a considerable amount of trading, although not enough to have a real effect on the demand side of the market.

128. Companies which invest in share of other companies engaged in a line of activity that has some direct bearing or influence on their own field of business are also exceptions to the rule. Examples of share investments in this category are the investments which a number of major oil companies have in the share capital of crude oil pipelines. In addition to being associated with each other through share holdings, it will often be found that other contractual relations exist, such as through-put agreements in the case of the above example. A company may also invest in the shares of another company which is an important supplier or an important customer. This is done to protect the source of supply of raw materials or the outlet for finished products. Share investments made by companies for the foregoing reasons tend to be of a long term nature and therefore contribute little to stock market activity.

129. Another example of share investing by non-financial corporations is the case of some family-owned or controlled corporations. Being operated primarily to suit the requirements of major shareholders, they tend to follow a policy of building up equity interest by investing earnings in share of other companies rather

than paying out liberal dividends which would be taxable in the hands of the individual shareholders. In effect, such companies operate partly as individual investment trusts, with investment policy being geared more to the investment objectives of the major shareholders rather than to the needs of the corporation. In the fixed income section of the portfolio, emphasis would be placed on owning preferred share rather than bonds and debentures, since dividend income is not taxable income in the hands of the corporation, whereas interest income would be. It is thought that there are relatively few companies in this category in Canada, so that their impact on stock market activity is likely to be relatively small.

INVESTMENT ACCOUNTS OF PROVINCIAL AND MUNICIPAL GOVERNMENTS

13. With one exception, provincial governments are precluded by statutory requirements from investing the funds of their various controlled accounts in preferred and common stocks. Each province has its own governing Act in this regard, such as "The Financial Administration Act" of the Province of Ontario and "The Department of Finance Act" of the Province of Quebec. The one exception is the Province of Nova Scotia, which recently passed "The Provincial Act of 1962 Bill Number 5"; under this Act, provision is made to allow such government accounts in that province as Pension Fund,Workmen's Compensation and Teachers' Superannuation to purchase either preferred or common stocks up to 20% of the total portfolio provided that not more than 40% of the total is invested

in corporation securities of all types. In view of the fact that this Act has just come into being, it is too soon to assess the effect it might have on the investment policies of the government accounts affected.

131. Municipal governments are restricted by provincial legislation to investing their funds in so-called "trustee investments", which generally means federal, provincial and municipal government securities. In Ontario, the governing Act is the "Municipal Act" with Section 12 (2) applying to Revenue Funds and Section 325 applying to Sinking Funds. These various provincial Acts and the regulations thereunder have been in force for a good many years and, as far as is known to the Toronto Stock Exchange, no changes are presently contemplated to permit municipalities to invest their funds in preferred and common shares.

132. In view of the foregoing limitations, investment action by provincial and municipal government accounts have no influence on the stock market.

INFLUENCE OF TAXATION ON DEMAND

133. The incidence of taxation in Canada on corporate and individual taxpayers has an important bearing on the investment decisions of individual investors. At the present time, income earned by a limited company is subject to the following taxes, all of which are payable by the corporation:

(1) A federal income tax of -

(a) 18% of the taxable income, if the amount of such income does not exceed $35,000,

and

(b) 47% of the amount of taxable income in excess of $35,000.

(2) A federal old age security tax of 3% of the taxable income.

(3) A provincial income tax is presently imposed by the Provinces of Quebec and Ontario upon the profits of companies doing business therein. The rate of tax imposed by Quebec is 12%, while Ontario imposed a tax of 11%.

A credit of 9% may be now deducted from the federal tax in respect of these provincial income taxes in 1962 and subsequent years.

DOUBLE TAXATION

134. It has been one of the fundamental principles of Canadian taxation policy for many years to subject profits earned by limited companies to double taxation. The profits are first taxed at the above rates in the year in which they are earned by the company. The balance of such profits is then subject with certain exceptions to second taxation in the hands of shareholders when distributed to them as dividends, or in other forms which are held to be the equivalent of dividends for purposes of the Income Tax Act. Dividend income in the hands of individuals are taxed on the basis of a graduated scale of rates according to their level of taxable income. In general, dividend income received by a Canadian company from other corporations is not

subject to corporate income taxes in the hands of the receiving company.

EXCEPTIONS OR MODIFICATIONS

135. Several exceptions and modifications of this general rule of double taxation have developed over the years, such as the fact that special rates of taxation are imposed upon certain types of companies such as investment companies, non-resident owned investment corporations, foreign business corporations, personal corporations and others. Provision is made in the Income Tax Act for companies to pay a special 15% tax upon earned surplus accumulated to a certain date and so enable their shareholders to be free of tax when this surplus is ultimately distributed in certain ways. It is also possible to reduce the tax payable to not more than 20% of the earned surplus through the use of a "trader company" or a tax-exempt organization as an intermediary.

136. Apart from these exceptions and modifications, however, the general rule of double taxation of corporation earnings still applies to the vast majority of corporations and their shareholders. The result of this double taxation is to impose a heavy burden of taxation upon the income earned by limited companies and their shareowners.

DIVIDEND TAX CREDIT

137. To relieve this burden of taxation to some extent as far as shareowners are concerned, special provisions exist which provide that individual Canadian taxpayers who receive dividends from Canadian companies

which are taxable in Canada are permitted to deduct, from the taxes payable by them on such dividends, 20% of the Canadian dividends received. This 20% dividend tax credit arrangement is unique to Canada and, together with the fact that stock market profits made by Canadian shareholders are not subject to a capital gains tax as is the case in certain other countries, has contributed to a greater demand for preferred and common shares in Canada relative to other forms of investment than might otherwise be the case.

138. From the standpoint of the individual investor, the 20% dividend tax credit has meant that investment in preferred and common shares is often much more attractive than interest-bearing securities, depending upon the taxable income bracket of the individual. This is indicated by the following tabulation, which shows the yield which must be earned by an interest-bearing investment in order to equal in the hands of the recipient, after taxes, a net tax paid yield of 4.50% and 5.00%, respectively, from shares in taxable Canadian corporations:

Taxable Income Bracket	1961 Tax Rate	Yield on interest-bearing securities required to equal net tax paid yield from shares of 4.50% and 5% respectively.	
		4.50%	5.00%
$ 5,000 - $ 6,000	22%	5.65%	6.28%
6,000 - 8,000	26	5.71	6.35
8,000 - 10,000	30	5.78	6.42
10,000 - 12,000	35	5.88	6.53
12,000 - 15,000	40	6.00	6.66
15,000 - 25,000	45	6.13	6.81
25,000 - 40,000	50	6.30	7.00
40,000 - 60,000	55	6.50	7.22
60,000 - 90,000	60	6.75	7.50
90,000 - 125,000	65	7.07	7.85
125,000 - 225,000	70	7.50	8.33
225,000 - 400,000	75	8.10	9.00
Over $400,000	80	9.00	10.00

Note: The foregoing calculations are based on the premise that income from the intended investment will be additional income attracting income tax at the rate applicable to the investor's highest taxable income bracket.

INSTITUTIONAL INVESTORS NOT BENEFITED

139. While the 20% dividend tax credit has benefited the individual taxpayers, it has not provided any advantages to institutional and other investors who are not subject to taxation on investment income. Such investors, for example, find preferred shares less attractive than bonds for the fixed income portion of

their portfolio in view of theeffect which the 20% dividend tax credit has had in lowering the yields obtainable from this type of investment.

INFLUENCE OF TAXATION ON RISK FINANCING.

14. The influences of taxation on investment decisions are myriad and affect both the demand and supply side of the market. The first and most obvious influence is that taxation of any kind serves to divert funds from the private channels of the economy to support of government activities. The progressive structure of the tax rates, especially in personal tax rates and estates tax rates by which those with the highest incomes and largest estates pay taxes at the highest rates, has been an important factor in sharply restricting the ability of individuals or small groups of individuals to amass funds with which to finance major business ventures. Taxation, both of individuals and corporation, is often said to impair incentives to undertake desirable and necessary, albeit risky and arduous, programmes.

141. The technical provisions of the taxation legislation have important effects. The fact that bond interest payments are deductible by corporations as expenses in computing income for tax purpose, while dividend payments are not, has obviously been a very important consideration in those many cases in which corporations have chosen to raise new capital through bond issues rather than stock issues. The 20% tax credit on dividends has worked in the opposite direction.

The absence of a tax on capital gains, coupled with the progressive nature of personal income tax rates, has led investors, particularly those in high income tax brackets, to seek out situations in the stock market that offer prospects of capital gain in preference to regular income.

142. The Toronto Stock Exchange believes that the entire taxation structure in Canada should be the subject of government review in which every consideration is given to reducing the burden of taxation now imposed on corporate or individual taxpayers OR to designing a new formula for taxation which would tend to encourage corporate financing through stock issues rather than by bond issues.

PART III

THE SUPPLY OF EQUITIES

AVAILABLE ON THE T.S.E.

143. A broader cross-section of equities made available to investors would be of advantage to Canada. The Toronto Stock Exchange now provides facilities for trading a large number of equities representing a substantial value. At the end of 1961, there were 1,117 stocks listed, with a market value of $61,073,003,583. It is appreciated that the market values represent some shares which are closely held and not likely to be available for trading, but, during the year 1961, 719,320,976 shares traded with a total value of some $2,526,349,869 (Appendix 10). During the first six months of 1962, 408,540,613 shares traded with a total value of $1,185,778,009.

MORE VARIETY REQUIRED

144. During recent years, there has been a reasonably steady increment of equities through new issues (see Appendices 11 and 12). These have covered a fairly wide field of enterprise, but a broader cross-section of Canadian securities would not only enable Canadians to participate more widely in business in Canada, but would also invite capital portfolio investments from other parts of the world. To this end, the Exchange is constantly encouraging additional qualified listings. It is appreciated that the geography of Canada and our relatively small population preclude complete representation in such

industries as aircraft, chemicals, electronics, railways, etc., but there are other fields which could have more complete representation. In truck and motor car production, for instance, only one Canadian producer has its shares listed and, of its outstanding capital stock, some 75% is owned by the American parent. There are about five other American-owned producers whose vehicles are manufactured or assembled by Canadian subsidiaries, none of whose Canadian equities are available for purchase. Similar situations apply with respect to many major industrial classifications.

PARTICIPATION IN FOREIGN-OWNED SUBSIDIARIES OPERATING IN CANADA

145. There has been considerable public discussion in Canada concerning the inability of Canadians to buy equities in Canadian subsidiaries of foreign-owned corporations. In the post-war boom, the Canadian economy was expanding at a greatly accelerated rate to satisfy the pent-up world demand for Canadian goods. The expansion which took place would not have been accomplished without the help of tremendous amounts of foreign capital, and, during this expansion period, Canadians welcomed this help in whatever form it chose to take (Appendix 13 indicates the amount and type of foreign investment as at 31 Dec. 1959).

146. Today, with this period of accelerated expansion behind us, we should not fail to remember that foreign capital, particularly American capital, was very helpful during this time and may be so again in the future. We are of the opinion that an increase in

the supply of equities of Canadian subsidiaries of foreign-owned corporations should be encouraged in ways which will be beneficial both to the corporations concerned and to the Canadian investors. Care must be taken to ensure that any encouragement or inducement to increase supply of equities from this source by legislative action is not interpreted as punitive and thus results in impeding the flow of capital into Canada. From the standpoint of the Toronto Stock Exchange, there would be, of course, a distinct advantage in having Canadian participation in foreign-owned Canadian corporations, since members of the Exchange would have a wider range of shares in which to trade. However, the Exchange believes that the apparent immediate benefit would be outweighed by other considerations if this were in any way forced upon the corporations concerned.

147. From the point of view of the foreign-owned corporation, there appear to be two principal advantages to Canadian participation in the equities of its Canadian operation. The first is in the field of public relations. It would be good business to have a partial Canadian ownership of companies doing business in Canada. This would strengthen our ties with the foreign corporations which see fit to spend many millions of dollars in Canada in plant and equipment, and in producing employment for Canadians. The second advantage, particularly in the field of consumer goods, would be that the owner of shares in a company is favourably inclined to purchase the goods of such

company and, the more Canadian shareholders there are in this type of company, the more potential customers there are for the company's goods. These advantages are not always present, but, when they are not, other advantages must be available to encourage financing in Canada.

INFLATION DISCOURAGES EQUITY FINANCING

149. One point that has mitigated equity financing since the Second World War has been inflation. It has been attractive to borrow funds for a stated period with some certainty that the repayment date would find the currency with a reduced purchasing power.

STUDY OF INCENTIVES NEEDED

150. The Toronto Stock Exchange believes that it is important to maintain the flow of funds for capital investment and that this can best be accomplished through incentives, but the Exchange also believes that great care must be taken to provide the right kind of incentives and that there is not now available adequate information to enable a categorical recommendation. Accordingly, the Exchange recommends that a proper study be made of incentives, to include tax incentives, designed to encourage the distribution and ownership of equities by all types of investors in Canada.

151. For example, the 20% tax credit does not extend to the large pools of institutional money, since most insurance companies and pension funds, as well as others, are non-taxable. However, since these organizations represent the savings of millions of Canadians, there should be some incentive which would make the

purchase of Canadian equities attractive to them. This would broaden considerably the market for Canadian equities and also assist in maintaining control of Canadian operations in Canada.

SHARE SPLITS

151(A). (a) The Toronto Stock Exchange, either directly or through some of its members, has been urging listed companies to "split" their shares in order to keep their price at or below $20.00 per share. A number of companies have taken such action.

(b) A survey made by one of the Exchange members in late 1959 of 1,000 of his clients disclosed the following information:

(i) At price levels of $75.00 and up, only 23% of small investors ($1,000 to $5,000 range) are interested in buying "blue chips";

(ii) But if "blue chips" were split and offered at $10.00 per share, 62% of small investors would prefer to own them instead of bonds, junior industrials or speculative issues. Ability to buy board lots is a major factor in the small investor's interest in this class of security;

(iii) In a "breaking" market, 48% of small investors would support the market for the "blue chips" if they were being traded in the $10.00 range, but, at the higher levels, only 31% would buy as prices went down;

(iv) 80% of small investors show a preference for the products and services offered by a company in which they own shares;

(v) 84% of small investors show a preference for ownership of stock in companies which would issue quarterly financial reports over those which would not;

(c) An example of the effect of a stock split on the number of shareholders in a company may be seen in Dominion Stores Ltd. In the ten years from 1950 to 1961, the number of shareholders increased only from 3,300 to 3,700, i.e., 12%. But in 1961, the stock was split 5 for 1 and, within a year, the number of shareholders increased from 3,700 to 8,550 - 131%.

(d) It is suggested that the Bank Act be amended to permit banks to have their shares of nominal or of no par value and thus permit them from time to time to split their shares. It would probably be helpful, also, in this respect if the Commission would indicate the advantages(if they agree there are advantages) to the companies and to the public in having shares divided from time to time to permit them to sell in the range of $20.00 or less. It is interesting to note a comparison between British and Canadian banks which was made in 1960:

	Price Cdn.$	Number of Shareholders	Market Value Average Shareholding Cdn.$
British Banks			
Barclays	8 7/8	61,000	3,337
Midland	12	65,000	2,988
Lloyds	9 1/4	66,000	2,599
Westminster	8 1/2	50,000	2,788
National Provincial	12 1/4	42,000	3,062
Canadian Banks			
Royal	79 1/2	22,200	21,624
Montreal	55	21,100	15,840
Commerce	55 1/2	20,400	12,265
Nova Scotia	70 3/4	9,400	16,202
Toronto-Dominion	55	9,600	13,750

CHAPTER VI

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TRADING FACILITIES AND PROCEDURES

GENERAL

152. The trading facilities provided by the Exchange in terms of plant and equipment are the equal of any stock exchange of which we have knowledge. The present building, erected in 1937, had installed in it a quotation enquiry system which has attracted world-wide interest. It is only in recent years, for example, that comparable systems have been devised for the New York Stock Exchange. The trading floor, of 8,500 square feet, provides facilities at nine trading posts for 590 more actively traded stocks and at three "inactive" posts for an additional 527 less actively traded issues. Trading activity in terms of the work to be processed on the floor and in subsequent recording and clearing operations can best be measured by the number of transactions executed during the course of a business day, and the present facilities have proven capable of adequately handling some 21,500 daily transactions.

TICKERS

153. One exception to adequacy of service is perhaps in the tickers. While the ticker system, with 411 tickers running in 76 towns and cities in Canada and 5 cities in the United States, is well distributed (see Appendix 18 for list and cost), the speed of present-day tickers is such that they cannot keep pace with peak market activity. A new type of ticker is now in course of development and the Toronto Stock Exchange hopes that, in the not distant future, this improved service will be available to its members.

QUOTATION SYSTEM

154. The dial quotation system provides for quotations to be printed out in subscribers' offices (in Toronto only) on some 590 listed issues within from 7 to 30 seconds of the time of dialling. The system has handled up to 75,000 enquiries on peak days. It is supplemented by a telephone enquiry system for the balance of the list.

155. In the past two or three years, a number of quote systems using electronic apparatus have been developed, and, at the present time, the Toronto Stock Exchange is actively considering the installation of such a system. This will give instantaneous quotations and other information throughout North America on all stocks listed on the Toronto board. It is expected that such a service will require a capital expenditure of close to a million dollars and will take almost two years to design and instal.

156. Another quotation system now available to members in Toronto is the "teleregister board". This is a console type of equipment which displays the last "bid" and "ask" on up to sixty selected stocks. The broker who has this board in his office will select, of course, the sixty stocks in which his clients are most interested. As the prices of these sixty stocks change on the big automatic board in the Exchange, they are at the same time automatically changed on the console in the brokers' office.

DATA PROCESSING

157. The use of modern communications and data processing equipment in the operation of the Exchange is also a constant study. The most promising areas for the advantageous use of such equipment appears to be in the processing of information, commencing at the point when a trade is made between two traders on the floor. Although speculative opinions have been given that the human element in the trading process might be eliminated altogether, this does not appear to be a possibility that need be taken into account in present planning.

CENTRAL DEPOSITORY

158. Studies are also being made on the feasibility and practicability of establishing a central depository for share certificates. This is an established practice in some European countries (France and Germany) and may well be capable of operating in Canada. Such an organization would probably be quite separate and apart from the Stock Exchange, but the Exchange and other financial institutions would certainly be involved in its operation.

BROKER'S RESPONSIBILITY IN TRANSACTIONS

159. When a member of the Toronto Stock Exchange is given an order by a client to buy or sell stock, there can be considered to be an unwritten contract between the two parties. On the one hand, the customer undertakes to buy (or sell) a specified number of share of a given stock at the market or at a stated price. On the other hand, the member undertakes to use his best efforts

for the customer in carrying out the transaction. Since the broker is a member of the Toronto Stock Exchange, which has a constitution, by-laws and settled modes of procedure, he, in carrying out the transaction, agrees to proceed in accordance with the by-laws and rules of the Exchange, and to execute the order with diligence and care.

METHOD OF EXECUTING AN ORDER

160. Orders to purchase or sell stock are normally placed either by telephone or by customers actually in the broker's office, or by mail or telegraph. Assume an investor in Fort William wishes to purchase 100 shares of Bell Telephone at $52. He telephones his salesman, who is likely a representative of a national brokerage or investment house maintaining a small branch office in Fort William. The salesman will at once forward the order to the head office of his company in Toronto by direct wire. A ticket for the order is made out by the firm's traders on the stock trading desk in the Toronto office. The traders in the office then relay the order by direct private telephone to the company's order clerk in the firm's booth on the edge of the trading floor of the Toronto Stock Exchange. The order clerk then gives the order to the firm's floor trader.

TRADING "POSTS"

161. On the Toronto Stock Exchange, there are trading posts or locations. To each post is allotted a certain number of securities. Trading in these stocks must take place around these posts. In order to avoid congestion at any particular post, the most

active stocks are, as far as possible, posted for trading in different sections. All transactions and markets on the floor are made by open outcry of bids and offers. This is done to attract the attention of all traders who may be at that time busy dealing in other stocks at a different post. The moment a trader hears the stock called by another trader, all he has to do is go to that post and see if any of the bids or offers are meeting his order.

THE SEQUENCE IN A TRADE

162. The floor trader will therefore go to the post where Bell Telephone is traded and complete the transaction. The particulars of the trade are recorded on a floor ticket, which forms a permanent record of the transaction and is instantly transmitted to the ticker room, where the information is broadcast to all parts of the country over the ticker tape. As soon as the floor trader has completed the purchase of the 100 shares of Bell Telephone at $52, he informs his firm's phone clerk in the booth at the edge of the floor, who phones the details to the trading room of the firm's Toronto office. The order is then completed and the customers' man in Fort William is informed by private wire that the order has been executed. The customers' man will then phone his client. An official confirmation of the transaction will be mailed to the client that same night from either the Toronto or Fort William office, depending upon the practice of the particular member organization.

TRADING RULES AND REGULATIONS

163. The Toronto Stock Exchange has developed very strict rules with regard to trading procedures and with regard to ethical standards of the members and member houses. Every effort has been made, and will continue to be made, to protect the interests of the buyer or seller of securities. Attorneys or floor clerks of the member firms are subject to a maximum fine of $500, or suspension or expulsion from the trading floor, for any infractions of these rules and regulations. These rules follow the American rather than the British practice, with the important difference that Toronto has neither specialists nor odd-lot dealers. In the case of the London Stock Exchange, transactions are completed on a much less formal basis than in Toronto. While their members, in buying or selling, must give their transaction sufficient publicity to make its existence generally known at the time, rules or regulations relating to the sequence in which orders must be filled (as is the case in Toronto) or to floor procedures generally are either very limited or non-existent (see Appendix 43 - By-Laws and Rulings on Trading - T.S.E. Circular No. 3).

FLOOR GOVERNORS

164. The Board of Governors of the Toronto Stock Exchange appoints floor governors to supervise floor procedures during trading hours. The floor governors have authority to make decisions whenever a dispute between members may arise over a transaction, and have power to discipline floor traders and clerks as noted above.

PRIORITY OF ORDERS FOR CUSTOMERS

165. An important ruling with regard to trading, from the standpoint of the protection of the public, was recently introduced by the Board of Governors of the Toronto Stock Exchange. This states that "Orders for the accounts of customers shall have priority over all other orders executed on the trading floor ... The phrase "orders for the accounts of customers ... shall not include an order for the account in which a member or a partner, director, officer, shareholder or employee of a member ... has an interest direct or indirect, other than an interest in a commission charged." At the time this ruling was made, it represented an important step forward in ensuring the public of complete priority in obtaining the best possible price in either the purchase or sale of a given security. As far as the Exchange can learn, Toronto was the first exchange to introduce such a far-reaching protective measure for the public benefit. It is understood that a similar ruling has since been adopted by other exchanges.

SPREADS

166. The spread in the price of a stock is the differential between the bid and the asked prices. A stock which is $50 bid per share and is offered at $51 per share has a spread of $1.00 per share or 2% on the bid price. The size of the spread in the market of various stocks will vary substantially in accordance with a number of factors, the more important of which are stated below.

167. Factor 1 - Availability: The spread in the market of an issue with a relatively small number of shares outstanding is usually larger than the spread in the market of an issue with a large number of shares outstanding. Few people hold the stock and, therefore, few people are interested in it; consequently, it trades infrequently and, in many inactive issues, as long as a week will pass with no transactions. Inactivity naturally results in wide spreads, as there is no buying pressure to bid up the price to the offering side and there is no selling pressure to lower the offering price down to the bid. When inactive issues suddenly become active due to unexpected news, the spread will immediately narrow. The following are examples of spreads in the markets of relatively inactive industrial and financial stocks as compared with spreads in the markets of active stocks.

Spreads in the Markets of*
Inactive Listed Stocks

Security	Bid Price	Offered Price	Dollar Spread	Percent Spread on Bid Price
Imperial Life Assurance	$121.00	$134.00	$13.00	10.7%
Dominion Lime Products	6.00	7.375	1.375	22.9
Niagara Wire	13.00	15.00	2.00	15.4
Cdn. General Electric	32.00	35.00	3.00	9.4
Anthes Imperial "A"	11.50	12.50	1.00	8.7

* Prices as of May 31, 1962

Spreads in the Markets of *
Active Listed Stocks

Security	Bid Price	Offered Price	Dollar Spread	Percent Spread on Bid Price
Calgary Power	$20.375	$20.50	$0.125	0.6%
Salada Foods	12.875	13.00	0.125	1.0
Shawinigan Water & Power	22.25	22.50	0.25	1.1
International Nickel	68.00	68.25	0.25	0.4
Abitibi Power & Paper	44.75	45.00	0.25	0.6

* Prices as of May 31, 1962

168. Factor 2 - The Stock Price: Comparisons between high priced (above $50 per share) and low priced (below $15 per share) stocks indicate that, with all other elements (such as number of shares outstanding) equal, as prices increase so does the dollar spread in the market, but, at the same time, the percentage spread declines. This holds especially true of penny mining stocks where the dollar spread may be only one cent but the percentage spread may be as high as 10%. The following table indicates typical dollar and percentage spreads of stocks in various price ranges.

	Average Spread	
	$	%
10 active stocks selling above $50 per share	1.0625	1.0971
10 active stocks selling below $15 per share	0.215	2.7326
10 active mining stocks selling below $1.00 per share	0.0065	4.3273

169. Spread in Preferred: Spreads in the prices of preferred stocks are usually very wide, because most preferred stock issues have only a small number of shares outstanding and most of the shares are held by long term investors. As preferred stocks are fixed income securities, they trade very little and, very often, there will be no offering whatsoever.

PARTICIPATION IN THE MARKET BY "PROFESSIONALS"

170. A "professional" may be defined as a person who buys or sells for the short term -- as a practice -- or consistently -- and not only on rare occasions. Naturally, he does this for a profit and therefore takes advantage of a market movement which he thinks unusual and unjustified. For example, the price of a stock may be unduly depressed by "panic" on the basis of an isolated bit of bad news about the company, or it may have a spectacular rise because of some favourable news story. The professional, in the first case, may buy, or, in the second case, sell or sell short. In either case, the action of the professional will probably have a stabilizing influence on the market, and he therefore tends to create the same result as the "specialist" is supposed to do in the United States markets. And it must be emphasized that not in all cases does the professional make a profit; this operation has in it a large element of risk, and, to have any success at all, the trader must be bold, skilful and experienced. Some members of the Exchange do professional trading, but there are no statistics

available to indicate either the amount or the profits - if any - from such operations.

SPECIALIST TRIAL IN TORONTO

171. In an endeavour to give the best possible service in filling orders for clients, it was decided to try out the specialist system in Toronto three years ago. However, the practice was discontinued when it was found that the specialist, in fact, served no useful purpose in our market, where the value of the shares is, on the average, very much less than in New York and where the broker here is, to a large extent, fulfilling the role of both the jobber and the broker in London. It is interesting to note in this connection that discontinuance of the "jobber" system in London is now being considered as being unnecessarily cumbersome, and there is some doubt as to the need for, or the efficiency of, the specialist in New York. The large underwriting houses which have stock exchange affiliates may from time to time have substantial positions in issues which they have underwritten or sponsored and, to this extent, act as "specialists", but these positions, as a rule, are of a temporary nature. Very few member firms maintain large investment positions in equities for their own accounts (see Chapter IX).

THE TORONTO STOCK EXCHANGE
DOLLAR AND SHARE VOLUME

172. The number of shares traded on the Toronto Stock Exchange has fluctuated in a wide range during the past ten years, but there has been a noticeable

uptrend as shown in the table at Appendix 19. The heavy volumes recorded during 1955 and 1956 were largely due to the activity of the mining and western oil stocks in those years. Mining and western oil stocks still have an important - but, in recent years, a declining - influence on the Toronto Stock Exchange as illustrated by the following statistics:

The Toronto Stock Exchange
Mining & Oil Share Volume and Value as a
Percent of Total Volume and Value

Year	Share Volume	Share Value
1961	86.8%	29.8%
1960	90.7%	33.6
1959	91.3	38.5

The Toronto Stock Exchange
Industrial and Mining Volume and Value

	Industrials		Mines and Western Oils	
Year	Share Volume	Dollar Value	Share Volume	Dollar Value
1961	95,077,878	$1,772,758,204	624,243,098	$753,591,665
1960	43,758,216	812,338,748	425,933,327	410,991,746
1959	66,114,430	1,114,209,434	697,120,181	716,212,893

173. The relative position as to volume and values of the mining and western oil stocks listed on the Toronto Stock Exchange is declining due, in part, to the development in Toronto of a large industrial market. It is anticipated that this trend will continue as Canadian secondary and heavy industry expands - although Toronto should still continue to hold a pre-eminent place as a mining and oil share market relative to other exchanges in Canada.

SIZE OF TRANSACTIONS

174. The size of the typical transaction on the Toronto Stock Exchange varies in a wide range. Regular trading units or "board lots" are as follows:

MINING SHARES

Shares selling under $1.00:	500 shares
Shares selling at $1.00 and over:	100 shares

OTHER SHARES

Shares selling under $25:	100 shares
Shares selling at $25 and under $100:	25 shares
Shares selling over $100:	10 shares

175. Individual or retail orders to purchase industrial stocks are usually for 100 shares, while orders for institutions are rarely for less than 1,000 shares. Large institutional orders, i.e., for 10,000 shares or more, are usually executed over a period of days, and very large orders are generally distributed among a number of members of the Exchange.

CHAPTER VII

PRIMARY DISTRIBUTION AND SECURITIES LEGISLATION:

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PART I

PRIMARY DISTRIBUTION

176. For definition as in The Ontario Securities Act (Sec. 1(1)), see Appendix 20.

REQUIREMENT FOR PROSPECTUS WAIVED FOR LISTED STOCKS

177. Sections 38, 39 and 40 of the above-noted Act require the filing of a prospectus with the Securities Commission before "primary distribution", but Section 41 (b) of the Act states that Sections 38, 39 and 40 do not apply to securities "that are listed and posted for trading on any recognized stock exchange when such securities are sold through such stock exchange." It is as a result of this Section 41 (b) that the Toronto Stock Exchange is responsible for supervising the primary distribution of shares of some of its listed companies, i.e., those engaged in mining and oil production. On the other hand, it has always been the accepted practice in Ontario that primary distribution of securities in the industrial category will be made only after filing a prospectus with the Securities Commission, notwithstanding Section 41 (b).

INDUSTRIAL PRIMARY - BY PROSPECTUS

178a. As a result of the above-noted long-established practice, the Toronto Stock Exchange lists only the issued capital of industrial companies; hence, if such a company wishes to raise further funds by the issue and sale of additional treasury shares, this must be done off the Exchange by a public offering accompanied by a prospectus which has been filed with the Securities

Commission - in other words, the shares are traded on the Exchange only after they are issued and in the hands of the public.

INDUSTRIAL PRIMARY - NOT BY PROSPECTUS

178b. But it must be noted that "primary distribution" by the Securities Act definition (Sec. 1(e)(ii)) includes trades in "previously distributed securities" under certain circumstances, i.e., where control of a company is involved. In such cases, blocks of such securities may be distributed with permission of the Toronto Stock Exchange off the floor of the Exchange, such permission being only granted in special circumstances; for example, when the stock to be sold and the actual sale on the floor of the Exchange might unduly depress the price of the security. In spite of the fact that the transaction takes place off the floor, under certain prescribed rules, such sale is considered to be made "through the facilities" of the Toronto Stock Exchange and, therefore, a prospectus need not be filed.

MINING AND OIL PRIMARY - EXCHANGE RESPONSIBILITY

179. Unlike the practice with industrials, the Exchange requires the initial listing and posting for trading of the entire authorized capital of mining and oil companies, whether issued or not; hence, should this type of company wish to raise further capital by the issue and sale of additional shares, it may do so only with the consent of, and on terms agreeable to, the Exchange - and, although a prospectus is not required, there must be very complete disclosure as discussed hereunder. Thus, the Exchange has assumed

an extremely onerous responsibility, which at present represents possibly 90% of its regulatory activities.

REGULATING MINING AND OIL PRIMARY

180. The efforts of the Exchange to supervise, regulate and control this type of primary financing have been devoted to two principal areas:

(a) Option and underwriting terms which must be met by persons or companies concerned (see Exchange Circular No. 5 at Appendix 21.)

(b) Full disclosure of all material facts through the medium of a "filing statement". (Sample form at Appendix 22 and Ruling 49 at Appendix 23).

181. Option and Underwriting Terms: It will be noted that under Circular No. 5 the following rules, inter alia, apply (these have been developed over the years as the result of experience and after discussion with the Securities Commission):

(a) An option without an underwriting shall not be accepted;

(b) An underwriting in almost all cases must be payable in full forthwith;

(c) The minimum underwriting or sale price shall be 15¢ a share except under exceptional circumstances or following a capital re-organization involving a change of name and consolidation of shares;

(d) The amount of an underwriting shall normally be not less than $30,000;

(e) The initial price at which an underwriting can be made is limited as to the amount of discount allowable from the current market;

(f) Not more than 1,000,000 shares can be included in any one agreement, and not more than 200,000 shares can be acquired at any one price, except that an option on 200,000 shares may be permitted at the same price as the underwriting provided the underwriting is for 200,000 shares;

(g) Price spreads between options are to be at not less than 5¢ per share up to 50¢, not less than 10¢ per share from 50¢ to $1.00, and not less than 25¢ per share thereafter;

(h) Individual option instalments shall come due at intervals not exceeding three months, and the whole agreement shall not embrace a period longer than eighteen months;

(i) Acceleration of the time at which options become due is provided for in the event of a sharp rise in the market price of the shares;

(j) No underwriting or option agreement will be accepted which does not provide for notice being given to the Exchange of any sub-options or sub-underwritings prior to their being entered into (this includes

the names of all parties who have a legal or beneficial interest);

(k) The underwriter, who must be a member of the Exchange or a registrant with the Ontario Securities Commission, takes full responsibility for the actions of any sub-underwriter or sub-optionee, and he is held to account as if the latter's actions were his own.

182. Filing Statements: Like a prospectus, the filing statement must make full disclosure. It must disclose not only the information concerning options and underwritings, but every other item or action that will result in any material change in the business or affairs or control of the company. A "Filing Statement Committee" of eight members (three of the present Committee are members of the Board of Governors) meticulously examine each statement and "accept" it for filing, or reject it. In the latter case, the company may not proceed with the proposed option - underwriting or other act - and, if it should persist in doing so, its shares will be suspended from trading or be delisted.

To give expert advice and so assist the Committee, a highly qualified mining engineer has been retained on an annual basis; the same man is a consultant with the Securities Commission.

Examples of information in filing statements are: a) any payments made or proposed to be made to a promoter or finder in connection with a proposed

underwriting or property acquisition; b) a brief statement of the company's future development plans, including proposed expenditures to be made from the amount raised by an underwriting; c) the company's chief development work during the past year; d) the names and addresses of any vendors of any property or assets to be purchased, and the amount of the consideration paid or to be paid; e) the names and addresses of persons who have received or will receive a greater than 5% interest in the consideration; f) the terms of any escrow agreement, the number of shares escrowed, and the names and addresses of anyone holding a more than 5% interest in escrowed shares; g) the names and addresses of the five largest registered shareholders; h) the names and addresses of persons whose share holdings are large enough to materially affect control of the company; i) a statement of investments in other companies held by the subject company, showing the cost or book value and the present market value thereof; j) a statement of any lawsuits pending; k) the dates, the parties to and the general nature of every material contract which is still in effect and not previously disclosed.

183. Exempted Companies: If a company is well-established and is unlikely to resort to primary financing through the Exchange, the Board of Governors may exempt it from submitting filing statements, and, indeed, at present only some 400 companies of the more than 1,000 listed come under Ruling 49; most of these are mining and oil companies in exploration or early

development stage and have in the past resorted to, or are likely in the future to resort to, primary distribution. It is interesting to note that, in 1961, a total of 183 filing statements (including amending statements) were dealt with by the Committee.

184. Publicity; These filing statements are available to the public; copies go to all members of the Exchange and to the press. The Exchange makes every effort to ensure that in these statements there is complete information such as might be of value to an investor, to the shareholders and to the public at large. There is some disappointment on the part of the Exchange that there is not more apparent use of such information by news media and by shareholders of the companies concerned.

A major portion of the administration of the filing statements has been in regard to so-called non-arms-length transactions between the directors or officers of the companies and the companies themselves. This is a particularly sensitive area and one in which shareholders are more appropriate complainants, either to the company or the courts, than the stock exchange, which is open to the accusation that it is attempting to run the internal affairs of listed companies. Shareholders' actions of this sort, however, have been notable by their small number.

SCRUTINY OF ANNUAL REPORTS

185. The Exchange carefully reviews the annual financial reports of these companies to ascertain if money raised has been spent for legitimate purposes and in conformity with the intentions expressed in the filing statements. This goes beyond what is undertaken by the Ontario Securities Commission or the Companies Branch of the Provincial Secretary's Department, and has been the cause of criticism from companies concerned as being unwarranted "meddling" in company affairs, but the Exchange considers it an essential duty. In several recent cases, the Exchange has noted, for example, from the material submitted, what it considers to be excessive salaries and administrative charges not warranted by the company's activities and has insisted that they be reduced or eliminated.

"NON-ARMS-LENGTH" TRANSACTIONS

186. As intimated in para. 184 above, the Exchange is much concerned with the arms-length character of a proposed transaction. Because it was found that, in some cases, properties or other assets were being purchased by companies from interested parties at what appeared to be unconscionable prices, a ruling was recently passed by the Toronto Stock Exchange which reads as follows:

> "In a transaction between a non-exempt company and a vendor who is a director, officer or major shareholder, the assets sold to the company shall be for a cash consideration no greater than the vendor's costs. If such

> vendor has owned the assets for twelve months or longer, in addition to the cash consideration, shares may be issued which are 100% escrowed. In both cases, the transaction shall be subject to the approval of shareholders at a meeting for which the notice shall set out all material details of the transaction.
>
> The Filing Statement Committee shall have discretion at all times in imposing the above restrictions on such a transaction."

Discretion as to the application of this ruling had to be left with the Filing Statement Committee, because the Board of Governors were aware that there would be cases where a director, an officer or a principal shareholder might own property which subsequently became very valuable and which he should sell to his company, and for which, in all fairness, he should receive more than his out-of-pocket expenses. In other cases, the Exchange has required the approval of shareholders before accepting a filing statement where it considers that the conflict of interest should be brought to the attention of shareholders.

ESCROWS

187. Escrow agreements to which the Toronto Stock Exchange always becomes a party, covering shares in listed companies, also afford considerable protection to the public. These agreements usually have to do with vendor's shares. The Stock Exchange permits a release of one-third of these shares at six-month

intervals only if sufficient money has been actually spent on the development and exploration of the property concerned. Where properties are abandoned before sufficient work has been done, the Exchange often requires a return to the treasury of at least some portion of the vendor's escrowed stock, prior to allowing a new underwriting.

MAINTAINING ORDERLY MARKET

188. The Stock Exchange, when it considers that there are not enough shares in the hands of the public to assure an orderly market, requires the underwriter to distribute the shares underwritten or optioned at prices not greater than what would be considered a reasonable mark-up from the take-down price; and, before continuing must submit proof of satisfactory distribution of those shares below the range stipulated. At all times, an underwriter is held to account for the orderliness of the market in the underwritten shares and he may be penalized if, following distribution, he completely ignores the market for these shares.

RESULTS OF PRIMARY FINANCING ON THE TORONTO STOCK EXCHANGE

189. (a) 1952 to 1961: It is difficult to assess the significance of the money raised in this way, nor are figures or results available for comparison as to capital raised from the sale of "unlisted" mining securities over-the-counter. From 1952 to 1961, we do know that $366,661,784 was provided for 352 listed mining companies by the underwriting or optioning of their treasury shares. Of these companies, 327 are

still listed, 23 have been delisted for a variety of reasons, and 2 have become industrials.

(b) 1957: A study was undertaken of the 126 mining companies financed through Exchange facilities in 1957, and it was found that the amount received from options and underwritings was $53,060,832. 33 of these companies eventually became producing mines for at least a period of time; 4 (of which 3 are uranium producers) have achieved production in excess of $50,000,000 each since 1957; 20 companies have each had gross production of $1 million to $50 million; and 9 companies have each produced less than $1 million. Obviously, this method of raising funds is of prime importance to the companies concerned.

SUMMARY

190. The above paragraphs 180 to 188 indicate generally the methods applied by the Toronto Stock Exchange in attempting to discharge its responsibility to supervise, regulate and control primary distribution through the Exchange. Many other Exchange regulations, of course, also apply to this type of stock transaction and lend strength to the Exchange's difficult task of protecting the investor and at the same time not strangling or unduly obstructing the flow of capital for the development of our natural resources.

191. Alternative Methods of Primary Financing:

(a) Many people - in fact, many members of the Toronto Stock Exchange - would remove this practice of primary distribution from the Exchange and leave the Exchange to pursue its true function of a market place

for securities already in the hands of the public. Such a course would remove what appears to be the anomalous situation which now exists where, on one hand, the Exchange strives to improve and increase the public interest and regard for equities, and, on the other hand, must act as a medium for the financing of highly speculative enterprises.

(b) The alternative would be primary financing of the mining and oil ventures by prospectus under the direct control of the Securities Commission. We say "direct control" because, of course, even now, the Commission is the superior authority and the Exchange operates always subject to the overriding legislative regulations administered by the Commission, with whom the Exchange always works in harmony and close co-operation.

192. It is difficult to see how the Commission could do much more than the Exchange is now doing, although, of course, the Commission staff would in no way be affected by the results of their decision to accept or reject a prospectus and the attendant plans for financing the enterprise, whereas the members of the Stock Exchange who sit in judgment on these matters may be - and often are - indirectly affected, i.e., on the assumption that the more stocks listed, the more trading there will be. The only answer to this is the fact that the members of the responsible committee are scrupulously honest and objective in their consideration of the proposals that come before them; more than this, there is no doubt that the experience of at least some

members of the committee in the vagaries and intricacies of this type of financing, and their personal knowledge of people in the industry - promoters, underwriters and optionees - are of great value.

193. Perhaps it is no more than fair to say that although these members seem to "lean over backwards" in trying to ensure that the investor gets a fair deal, they are, in fact, indirectly acting in their own self-interest, because they realize that a "bad" deal is bad for the investment industry, bad for the Exchange, and that means bad for their business.

194. It is quite certain that any alternative method of arranging primary distribution would be subject to the following disadvantages when compared to the present system:

(a) The use of a prospectus would be very much more expensive because of printing and legal fees;

(b) The processing by the Securities Commission under present regulations would require an independent audit of the company's finances, which would add to the cost. The Exchange accepts the certificate of the company auditors;

(c) There would be a lack of discretion and flexibility in processing through a government agency;

(d) There would be much longer delay in getting approvals.

CONCLUSION

195. It is doubtful indeed that any public servant, judicial or administrative, would act more decisively - or more objectively - or with more experience - or with greater consideration for the investor - than do the Governors and their Committees.

It is suggested, therefore, that the present system of primary distribution be left as it now is.

PART II

PRESENT CANADIAN LEGISLATION

196. Each of the ten provinces now have a Security Act and, in addition to this, there is the Dominion Companies Act, a number of Provincial Companies or Corporations Acts and Companies or Corporations Information Acts; all might be considered, in part at least, "security legislation". The fraud provisions of the Criminal Code also has to do with security dealings (wash-selling, etc.)

197. In Ontario, "The Securities Act" (R.S.O. 1960, Ch. 363) and, supplementing it, Regulation 543 (R.R.O. 543), has been in force since 1945 - although frequently revised. The provisions of the Act have been closely followed in the security statutes of Alberta, Saskatchewan and Quebec, and it is understood that British Columbia and New Brunswick may shortly adoptlegislation of a similar pattern.

TREND TO UNIFORMITY

198. This trend to uniformity of legislation in the security field is more evident than in other areas, e.g., corporate law, and there is good reason to assume that the trend will continue. Experience has shown that as security business became more prevalent and important in any province, the need for regulations became apparent. The natural course to be taken by the province concerned was to draft and enact legislation very similar - if not in exact terms - to statutes in other provinces which had been tested and proved by practice and experience.

THE ONTARIO SECURITIES ACT

199. This is both a "regulatory" and a "full disclosure" type of statute; that is to say, it provides for a commission of three who have wide powers of regulating the industry by:

(a) the approval and registration of practically every person in any way connected with security issuing or trading;

(b) the investigation of individuals' or companies' books and affairs generally;

(c) consenting to the operation of a stock exchange;

(d) accepting - or rejecting - prospectuses, etc., etc.,

It is a "full disclosure" type because it sets out in Sections 38, 39 and 40 the "full, true and plain disclosure" which is required of each company before the distribution of its shares to the public.

CO-OPERATION AMONG PROVINCES

200. In recent years, there has been an ever-increasing degree of liaison and co-operation between the various provincial commissions or other relevant authorities. The exchange of information extends to reports on individuals, registered or denied registration; to administrative procedures and techniques; to suggested amendments or modifications to bring uniformity in law and regulations, and in other areas of mutual interest. There is a North American Association of Securities Administrators which meets annually, and, in addition, the Canadian Administrators meet annually to exchange

opinions, discuss mutual or individual problems and collaborate generally.

UNITED STATES SECURITY LAWS

201. There may be said to be four types of securities statutes in the U.S.A: a) The Securities Act of 1933, which is a "full disclosure" type of law pertaining to the initial sale of securities only after certain, and very complete, information is given to the public; b) The Securities Exchange Act (1934) dealing with the regulation of trading after the primary distribution, i.e., after the security is in the hands of the public; this Act regulates the stock exchanges; c) The State Security Laws - and there is one in almost every State - originally known as "Blue Sky Laws"; and d) Uniform Securities Act (1958), which has been adopted by some of the States in whole or in part and replaces the former "Blue Sky Law" of the State concerned. This Act is comparable to the Ontario Securities Act.

PROBABLE FUTURE CANADIAN COURSE

202. Had we in Canada 48 or 50 provinces with 48 or 50 statutes, with commissions or administrators - and policies - subject to the political whims of the 48 or 50 electorates, it is quite certain that the investment industry of Canada would favour federal legislation and control. However, we have but ten provinces; four - or perhaps six by this time - have practically uniform security legislation; all ten consult and exchange information, as necessary; and experience has shown that as additional provinces find that they need more refined and perhaps more drastic legislation, they will probably

follow closely the provisions of the Acts in the four or six provinces as referred to above.

FEDERAL LEGISLATION

203. One hears in Canada occasionally the suggestion that we should have a federal law similar to the Securities Exchange Act, and the implication is that such a statute would render a great service to our investment industry. This, of course, is not necessarily so. Experience has shown that in the United States their legislation does not remove completely breaches of ethical or legal codes., e.g., the recent exposures of some specialists and other irregularities in the operations of the American Stock Exchange. It is true, of course, that under the S.E.C. there are some requirements (for example, with respect to disclosure of directors trading in the shares of their company, or the disclosure of those interested in "take-over" bids, to name two) which might well apply to Canadian companies or stock exchanges. But a federal law to compel such disclosure and perhaps other desirable terms is not necessarily the answer; this can be, and no doubt will be, accomplished in due course, as other refinements in our practices have been introduced - when the need and demand is apparent - by either provincial act or stock exchange and/or I.D.A. regulation.

204. If, by federal securities legislation, we could assume the substitution of a federal act and department for the ten provincial acts and administrative departments, there are some in the industry who would acknowledge an immediate advantage in this by removing

duplication and establishing a higher degree of uniformity of administration and of the law than exists at present. But if it meant the addition of one more piece of security regulation, with one more department superimposed on those now existing, it would meet with the strongest opposition from the industry. To justify federal legislation and administration, the problem of security regulation must be identified as a national problem. In Canada, this is not the case. It is in great measure a local problem, particularly in the matter of registration of brokers, etc., and can best be dealt with at that level.

205. The Securities and Exchange Commission has brought some semblance of order out of the chaotic mass of security legislation and regulation which existed prior to 1933, but, at the same time, it has imposed delays and expense upon the investment industry which, it is hoped, will never be experienced in Canada.

206. The important feature which one must keep in mind when thinking of Federal Securities Legislation is that with the legislation must go the burden of administration. And in any federal department charged with the administration of a set of regulations, there is a well-known propensity to keep the power of decision at the "summit"; there is an antipathy to the delegation of authority and, even where there is delegation, there is a vast reluctance on the part of the "delegate" to make decisions. Such a philosophy applied to securities administration across Canada would lead to expense, delay and frustration which could not help but militate against the proper functioning of securities markets.

IMPROPER SALE OF CANADIAN SECURITIES IN U.S.A.

207. The only feature of the securities industry which might be regarded as a national problem in the past has been the sale of Canadian securities in the United States, resulting in the contravention of American laws. But even this problem can be effectively dealt with by such action as was taken in this province by the industry itself, and by the measures adopted by the Securities Exchange Act in the United States in regard to the withdrawal of the use of the mails. In March of 1961, the Broker-Dealers' Association of Ontario, at the instigation of and after "urging" by the Toronto Stock Exchange, prohibited their members from selling securities in the United States in contravention of the U. S. laws. This action has virtually eliminated this type of activity in or from the Province of Ontario and incidentally resulted in a considerable number of broker-dealers going out of business. It should be noted that the Exchange does not allow persons who have violated the laws of other jurisdictions in the distribution of shares to take part in primary distribution through the Exchange.

208. In summing up, then, it might be said that the work already done in the field of security legislation has achieved most of the desired results with little or no disruption of normal business and a minimum of expense to the taxpayer or security issuer. The Chairman of the Ontario Securities Commission, in the administration of his office, has acted with a minimum

of discretionary powers, but with scrupulous regard for the Act and with dedicated devotion to the rule of law, resisting all temptation to rely on administrative fiat. The infrequency of appeals from the Commission's rulings and the uniform lack of success of any such appeals are eloquent testimonials to the effectiveness of the securities administration in Ontario.

CONCLUSION

209. The Toronto Stock Exchange is of the opinion that a Federal Securities Act is neither needed nor justified, but does suggest that the Federal Government urge upon all Provincial Governments the need for uniform securities laws and similar administrative regulations.

MARKET MANIPULATION

209A. Sec. 323 and Sec. 325 of the Criminal Code (see Appendix 47) both refer to offences related to the "manipulation" of stock prices. Item "C" of Sec. 3 of By-Law 11 of the Exchange (Appendix 24) refers to the same subject. During the past three years, there have been only two prosecutions under the Criminal Code; one resulted in a trial and re-trial with two hung juries, and the other resulted in a "guilty" plea and conviction for fraud. There have been no charges laid under Item "C" of Sec. 3 of By-Law 11. All the above indicates that if there is market manipulation, it is extremely difficult to identify and, even if identified, it is difficult to prove.

209B. Perhaps the difficulty in identifying and proving market manipulation is due largely to the fact

that it is quite proper to carry out transactions which may materially affect the market but which are considered legitimate and are part of the normal workings of a free market. It is extremely difficult to differentiate between these and those other transactions which are carried through with the intent to manipulate and deceive.

209C. To legislate adquately against manipulation is indeed difficult. It may be useful for the Commission to take note of Sec. 9 of the United States Securities Exchange Act at Appendix 48. This deals with manipulation of security prices, and a comparison with our Sections 323 and 325 of the Criminal Code might indicate that Sec. 325 should be amended or extended to include some of the provisions of the said Sec. 9 - for example, 9(2).

209D. The Exchange suggests that the Commission might recommend that the Department of Justice study this subject and, after consultation with Stock Exchanges, Provincial Securities Administrators and others, decide whether or not amendments to the Criminal Code are needed.

PART III

THE T.S.E. AS A SELF-POLICING ORGANIZATION

210. It is frequently said that the Toronto Stock Exchange is a self-policing organization. This, to a large extent, is true and derives from the Act of Incorporation (1878) and Supplementary Letters Patent (1941); these extended the powers and objects of the Corporation, viz:

> "To enact by-laws, not contrary to law, for the constitution, government, control, regulation and management of the franchises, rights, privileges, contracts, obligations, transactions and affairs of the Corporation and of and between the members, and to impose penalties and forfeitures in respect thereof."

It may be of interest and useful to set out here some of the regulations which the Exchange has imposed upon, and enforced against, its members in its efforts to carry out these responsibilities.

BY-LAWS AND RULES AFFECTING MEMBERS

211. (The first figure is the number of the By-Law, the second figure the section):

(a) No member may form or maintain an affiliated company without the approval of the Board (1 - 4(a));

(b) A seat may not be transferred, pledged or mortgaged without authority of the Board (1 - 6);

(c) A member's seat shall be held in trust for the firm or corporation (and their creditors) of which the member is a partner or director (14 - 6);

(d) The Board may - and does - either as a result of a complaint or of its own volition, investigate the conduct of a member or any of his partners, or may appoint any other person or an auditor to investigate (10 - 2) (13 --5);

(e) If any member shall be adjudged by the Board of Governors guilty of a violation of any of the By-Laws or Rules or Regulations of the Corporation, or of failure to obey or conform to any decision of the Corporation or the Board, or of any conduct, proceeding or method of business which the Board in their absolute discretion deems unbecoming a member of the Exchange, or inconsistent with just and equitable principles of trade, or detrimental to the interests of the Exchange, the Board may impose any one or more of the following penalties, viz: (1) a fine not exceeding $15,000,

(2) suspension for such period or periods and upon such conditions, if any, as the Board may determine, and (3) expulsion; and, in addition thereto, may declare forfeit the seat and membership of any

member expelled (11 - 1).

Note: For definition of "conduct unbecoming, etc...", see Appendix 24.

(f) A member is liable for the acts of his employees - and his partners or directors and officers, if he is a member of a corporation (11 - 2);

(g) Attorneys representing the same member may not trade or compete with each other in the making of bids or offers at the same time in the same security (12 - 2);

(h) Attorneys must be approved by the Floor Procedure Committee, their appointment is renewed each year and may be revoked at any time (12 - 5-6);

(i) Attorneys may be fined up to $500, suspended or expelled for unethical conduct (26 - 9). For definition, see Appendix 25.

(j) No member may form a partnership, admit a new partner or permit a partner to retire, or dissolve or change the name of a partnership, or open a branch office, without the Board's approval (13 - 1) (38);

(k) If a member defaults in his liabilities or engagements to the Corporation or to the Clearing House, or to another member, he may be suspended by the Board; if a member becomes bankrupt, he is automatically suspended (21 - 2-9);

(l) Members and their attorneys must operate under the trading regulations described in Chapter 6 of this brief;

(m) Members must carry a blanket fidelity bond in amounts determined by the Board (28);

(n) Members must maintain, for each client having a margin account, a form of agreement as approved by the Board and signed by the client.

(o) Audits of members' financial affairs are carried out at such times and in such a way as the Board or Exchange Auditor may direct. In addition, the Board requires each member to file periodically with the Exchange answers to a financial questionnaire. Following this, the Exchange Examiners, who are Chartered Accountants in the employ of the Exchange, make a physical check of the books, records, accounts, customers' securities, etc., in the members' offices. The Exchange Auditor and the Exchange Examiners then report to the Audit Committee and, if a financial situation is not satisfactory, the Board may suspend the member;

(p) The Board may require a panel auditor, the Exchange Auditor or Examiners, to regulate and supervise the operations of a member;

(q) The Board may require a member to change his system of bookkeeping or record keeping;

(r) The Board determines the amount of net free capital to be had by members;

(s) Advertising by members (press, radio or television) is controlled (47);

(t) Employees who deal with the public (salesmen or customers' men) must be approved by the Exchange (49);

(u) The Board requires a report on short positions as of the close of business on the 15th and last day of each month (56) and a statement of outstanding loans each month (60).

212. The above regulations have been developed over a period of many years; some have been passed quite recently; others will no doubt be added as time goes on. It is the policy and determination of the Exchange that its affairs shall be conducted in accordance with the highest principles of ethics as an efficient quasi-public institution. It may be noted that, having regard to the type and volume of transactions, the lack of written contracts, the amounts of money involved in every day of trading, and the immense sums involved in a year's trading on the Exchange, there are extremely few complaints or allegations of malpractice.

REFERENCE LISTED COMPANIES

213. The above refers to members, and the regulations affecting the listed companies - and comments thereon - are discussed in Chapter VIII below.

CHAPTER VIII

THE LISTED MARKET AND OVER-THE-COUNTER TRADING:

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PART I

THE LISTED MARKET

EVOLUTION OF LISTING POLICY

214. Listing policy or the determination of the qualifications for listing on the Toronto Stock Exchange has been under continuous development over the past ten years. Although they can only be described in general terms, the tendency has been to increase the requirements while the listing of both industrial and mining and oil issues have remained in about the same proportion (see para. 222 below). There is a constant revision of the stock list occurring, as well as net changes reflected in the total listings.

FLEXIBILITY IN POLICY NECESSARY

215. The Exchange does not wish to develop a list of highly speculative industrial issues, but, at the same time, it is conscious of a responsibility to provide a market place for smaller industrial companies. Between these two objectives, a listing policy has been evolved, not always with absolute consistency, as it is felt that a considerable measure of flexibility is highly desirable in this field and that the combined experience of a representative segment of the industry provided by the members of the Listing Committee is well qualified to exercise such discretion to the best advantage. The Exchange policy endeavours to ensure that all companies deserving or worthy of listing will be accepted.

INDUSTRIAL QUALIFICATION

216. Industrial listings are now considered on the

basis of the earning record of the company, proof of consistent earnings being regarded as removing the security from the highly speculative field. However, if a company cannot show earnings of sufficient consistency but can show net tangible assets of over $1,000,000 and working capital of $250,000 or more, and can provide a projection of earnings satisfactory to the Listing Committee, the Committee may consider it a case for exercising a large measure of discretion.

MINING AND OIL QUALIFICATION

217. On the mining and oil section of the list, a similar evolution of policy has taken place, also in the direction of higher listing requirements. In the case of mining enterprises in the exploratory phase, companies are considered eligible when they have carried out preliminary exploratory work by diamond drilling and other means so that they are able to provide a competent engineer's report recommending a programme of shaft-sinking or adit construction to test the indicated ore-body by underground testing. The company must also be able to show cash on hand or a proposed plan to raise sufficient funds to carry out the recommendation. As this stage of development does not ensure a successful mining enterprise, it is inevitable that this listing policy will result in a number of dormant mining listings which have proven their prop~~erties to be~~ uneconomic in the course of carrying out the programmes projected by them when listed. So far, it has proven impossible to develop a minimum standard of performance which would have to be met to permit such companies to remain on

the list and which would be equitable to both existing and future shareholders, although some progress has been made in that direction. It is felt, however, that the listing of a company at this stage of its development gives the public shareholder a fair "run for his money".

OIL AND NATURAL GAS QUALIFICATION

218. Listing requirements as applied to oil and natural gas producing companies developed rapidly as western oil discoveries were accelerated in the early 1950's. It, too, has been a progression in the direction of increased requirements. The selection, as in the case of mining companies, has left a number of dormant or nearly dormant companies on the list. A greater trend toward mergers has reduced their number, perhaps to a greater extent than in the case of mining companies. Present policy would seek to make a selection among small companies on the basis of adequate financing and a sufficient cash flow to ensure the continued life of the company. Experience would suggest net cash resources of about $200,000, net cash flow of $25,000 to $50,000. This would mean net reserves of 750,000 to 1,000,000 barrels of light oil on a 4% annual production rate.

OTHER FACTORS RE LISTING

219. In addition to these particular measurements applied to applicant companies, such factors as distribution sufficient to provide an adequate auction market, the sponsorship of new issues and the total market value of shares in the hands of the public must

of necessity be taken into consideration.

COMPARISON WITH NEW YORK

220. A comparison with the standards of eligibility for listing on the New York Stock Exchange, while it may be of interest, does not prove to be particularly helpful. The American Stock Exchange listing regulations have been less restrictive than Toronto, but are now being revised with a view to setting a higher standard. Yardsticks on the New York Stock Exchange such as $1,000,000 of demonstrated annual earning power after all charges, including taxes, and net tangible assets of at least $10,000,000 or aggregate market value of common stock of $10,000,000, merely serve to emphasize the disparity in size of the T.S.E. and N.Y.S.E., and the industry of the two countries. The New York Stock Exchange seeks to provide a market place for the major nationally known domestic and foreign corporations with shareholder lists of 1,500 or more.

221. There are five Canadian industrial companies and six mining companies with shares listed on the New York Stock Exchange and on the Toronto and Montreal Exchanges. Relative trading volume in these issues on the three exchanges is shown in Appendix 45. An analysis of trading in interlisted issues on the Toronto, American and New York Stock Exchanges is given in Appendix 44, which serves to indicate the extent of trading in Canadian issues on American exchanges. (Note: There are now 33 industrials and 54 mines interlisted on the Toronto and American Stock Exchanges.)

NUMBER LISTED ON T.S.E.

222. At December 31, 1961, there were 1,117 issues on the Toronto Stock Exchange. Of this total, 620 were industrials and 497 were mining and junior oil stocks. During the period between December 31, 1950, and December 31, 1961, the number of listed industrial stocks increased by 107 or 21% and the number of listed mining and oil stocks increased by 95 or 21%, as shown below;

	Industrials		Mines and Western Oils		
Year	No. of new companies listing	No. of stocks listed at Dec. 31	No. of new companies listing	No. of stocks listed at Dec. 31	Total Listings Dec. 31
1948	12	493	13	357	850
1949	7	503	12	364	867
1950	13	513	41	402	915
1951	14	517	59	440	957
1952	13	536	56	479	1,015
1953	12	532	37	503	1,035
1954	13	529	21	518	1,047
1955	14	534	24	536	1,070
1956	29	569	32	554	1,123
1957	20	597	15	546	1,143
1958	9	608	6	522	1,130
1959	25	614	17	517	1,131
1960	13	617	6	501	1,118
1961	18	620	6	497	1,117

ISSUES TRADED DAILY

223. The number of different issues traded on the Toronto Stock Exchange during a typical day varies in a wide range, as illustrated by the following statistics;

Period	Most Active Day	Least Active Day	Average
January 1962	724	574	695
May 1962	805	555	667

The number of issues traded during a typical day on the New York Stock Exchange usually varies between 1,200 and 1,400.

BONDS AND DEBENTURES

224. At present, there are no bond or debenture issues listed on the Toronto Stock Exchange; all bond trading in Canada is done "over-the-counter". This has proven to be an efficient and satisfactory system and there seems little to be gained by the listing of bonds on the Exchange. In stock business done by members of the Toronto Stock Exchange, the broker ordinarily acts as an agent, whereas, in the bond business, the broker buys or sells as a principal. There is a substantial amount of bond trading carried on by bond houses who are not members of the Toronto Stock Exchange.

BONDS IN NEW YORK

225. At December 31, 1961, there were 1,186 bond issues listed on the New York Stock Exchange having a total par value of $113 billion, comprised of 69% U.S. Government, New York State and City bonds, and 28% of United States company bonds. Bond trading volume on the New York Stock Exchange totalled $1.6 billion during 1961. This would appear to be relatively small in relation to the total bond volume transacted during the year.

LISTINGS ON THE T.S.E. BY TYPE OF INDUSTRY

226. See Appendix 26.

PROCEDURE AND REQUIREMENTS ON LISTING

227. The information and documents required to support an application for listing an "industrial" company is at Appendix 27 and, to support application for listing a mining, oil or natural gas company, at Appendix 28.

LISTING AGREEMENT AND FEES

228. (a) A copy of the listing agreement to be signed by listed companies is at Appendix 29.

(b) The listing fees of the Toronto Stock Exchange are set out in Appendix 30. The most noteworthy changes in recent years have been:

i) The introduction of an annual sustaining fee of $100 in 1956. This fee was not made retroactive and now applies to somewhat less than one-third the listed companies.

ii) In 1960, the minimum listing fee for both mining and industrial listings was increased from $1,000 to $2,000.

iii) In 1962, revisions were made whereby a 50% credit could be given on the fees for listing the Canadian subsidiary of a foreign company provided the parent company had been listed on the Toronto Stock Exchange.

iv) In 1962, a reduction in the fees payable on a stock split and on large capitalizations, which favoured lower-priced industrial companies with large share issues.

NEW YORK FEES

229. The listing fees of the New York Stock Exchange are substantially higher than those of the Toronto Stock Exchange both on the initial listing fee and on the annual fee basis, as would be expected. The minimum initial listing fee is the same - $2,000 - but the initial rate is one cent per share for the first 500,000

shares. The minimum continuing fee (payable for fifteen years) is $500 and is at an initial rate of $100 per 100,000 shares.

REGULATIONS GOVERNING LISTED COMPANIES

230. A copy of Exchange Circular No. 6 with summary of these regulations is at Appendix 31. It will be noted that these provide, inter alia:

(a) Company must give notice to the Exchange of any proposed option, underwriting, sale or issue of treasury shares (see Circular No. 5, Appendix 33);

(b) Company must provide an annual report and financial statement to its shareholders and to the Exchange;

(c) The Governors of the Exchange may at any time require a company to submit to the Board a financial statement;

(d) Mining, oil and gas producing companies must give notice to the Exchange of any proposed mortgage, etc., on its property or equipment;

(e) Company must give prompt notice to shareholders and the Exchange of any action with respect to dividends or rights, and give adequate time for European shareholders to exercise those rights;

(f) Company must complete and file an annual questionnaire;

(g) Company must give notice of any material change in the business or affairs of the company, e.g., (unless specifically exempted) change in

Board of Directors; change in share ownership sufficient to affect control of the company, acquisition or disposition by the company of any mining or oil property or interest, or of shares in another company at a price in excess of $25,000 payable otherwise than in shares of the company; a new management contract, etc.

ADEQUACY OF COMPANY REPORTING

231. In a brief submitted in 1956 to the Royal Commission on Canada's Economic Prospects, the Security Analysts' Association of Toronto stated "that it believed that individual investors, as well as institutional investors, played an important role in the provision of capital to industrial companies, and that a better informed investing public would materially assist in the further growth and development of our country". In 1959, the Toronto Stock Exchange and the Montreal Stock Exchange wrote a letter (Appendix 32) to listed companies urging them to provide interim financial reports to shareholders in order that they might keep abreast of current financial and general corporate information of their company. In these briefs and letters, the Security Analysts and the two Stock Exchanges made certain definite recommendations which, if heeded by public companies generally, would have contributed substantially to the improvement of corporate reporting and to the enlightenment of shareholders and security analysts alike. A recent survey on financial reporting in Canada, however, bears out the fact that only a few of the companies acted upon these recommendations.

232. With some notable exceptions, Canadian public companies generally seem to fail to recognize their responsibility to shareholders and to see the immeasurable value a well-informed analyst plays in fostering new investor confidence in their securities. It is the Stock Exchange's view that it is inconsistent to encourage wider ownership of Canadian securities without encouraging more informative company reporting. Shareholders have a right to know about events and trends affecting their company when they are happening, and not a year later when the stock market has already discounted the news long in advance.

IMPORTANCE OF SECURITY ANALYST

233. Generally speaking, we can assume that most shareholders buy and sell shares on advice from their broker, investment counsellor or trust officer. A shareholder's confidence in his investment is primarly induced by what others in financial circles have to say about the company in which they are investing. Consequently, the most important medium for presenting a company's image to the shareholder is the security analyst, but, to obtain his favourable endorsement, the company must assume responsibility for issuing financial reports that are both more frequent and bold in their attempt at full and plain disclosure of the affairs of the company. Shares of a company which provides inadequate information on which analysts and investors generally can base reasonable conclusions tend to act irrationally in the market place. This, in turn, tends to destroy confidence and limit investor

acceptance of that company's securities.

INFORMATION REQUIRED FROM COMPANIES

234. The Canadian Institute of Chartered Accountants published results of a survey which they completed on the financial reporting of 300 Canadian public companies over a four-year period from 1957 to 1960. It is interesting to note from figures in the survey that, in the area of the particular recommendations made in the 1956 brief of the Security Analysts, there has been only a modest attempt on the part of companies to improve their reporting methods. We endorse the recommendations that were made in this brief and believe that they should be reiterated once again as being essential for inclusion in Interim and Annual Reports:

(a) As a general rule, companies should provide sales figures in order that a measure of comparison of company and industry trends may be established. The disclosure rate in Canada is not good, as cited by the fact that only 30% of the companies disclosed sales figures in 1960 compared with 29% in 1957. This is surprisingly low in comparison to U. S. companies as indicated by a survey of 600 companies in the United States, which showed that 98% disclosed their sales figures. It is also interesting to note that in 1960 only 45% of the Canadian companies issued supplementary financial data, a decrease from 51% in 1957.

(b) Companies should report their operations and those of their subsidiaries on a consolidated basis, identify their subsidiaries and set out the basis of consolidation. Again, however, only 74% of the companies consolidated all their subsidiaries in 1960, compared with 70% in 1957.

(c) All companies should provide two-year detailed comparative statements of all accounts in order to facilitate the comparison of figures from one year to another. In 1960, approximately 59% of the companies provided statements in comparative form, compared with 50% in 1957.

(d) Companies should be required to disclose the nature of long-term lease commitments in the financial statements and in further detail in the accompanying notes. It is evident that in recent years, lease financing has become more and more popular as a means of financing a company's capital requirements. Of 68 firms in the survey known to be committed to long-term leases, 46 had not provided any information whatsoever.

(e) Companies must recognize that bare figures in financial statements tell only part of the story. Complete discussion of points which need clarifying is essential in order that there can be no misinterpretation of the facts.

(f) The issuance of Interim Reports is of fundamental importance in keeping shareholders and analysts currently informed of the affairs of the company. There is considerable room for improvement,

however, for only 19% of the 300 companies surveyed produced interim financial statements.

UNITED STATES REQUIREMENTS

235. It is obvious from these few comparisons that the Canadian shareholder and security analyst is at a disadvantage from his U.S. counterpart in being able to arrive at a well-informed opinion, as the flow of information from Canadian public companies is not as adequate as it might be. In the United States, the Securities Act of 1933 requires that companies with listed securities issue annual and interim reports. Many companies recognizing the value of good shareholder relations have gone beyond the requirements of the Act.

RECOMMENDATIONS

236. The Toronto Stock Exchange suggests that the following recommendations would go a long way towards achieving what is desired by shareholders and analysts alike in setting up a uniform standard of corporate reporting.

We suggest that legislation be effected under the jurisdiction of the federal and provincial Companies Acts and the provincial Securities Acts, establishing a high, uniform set of standards requiring full disclosure of the accounts of the company. We also suggest that it be made mandatory that companies provide Interim Reports in addition to their Annual Reports.

ANNUAL REPORT

237. The Annual Report should be comprehensive enough in its scope to enable one to relate the company's

performance to industry as a whole and should include, where practicable and possible, among other things:

1. A complete consolidation of the accounts of the parent and subsidiary companies, the identity of each subsidiary and the basis of consolidation of each.
2. Two-year detailed Comparative Balance Sheets.
3. Two-year detailed Comparative Earnings Statement.
4. Detailed notes to the Balance Sheets and Earnings Statements.
5. Explanation of accounting methods.
6. Statement of Earned Surplus.
7. Annual Review of Operations.
8. Two-year Statistical Summary of Operations.
9. Source and Application of Funds.
10. Sales Breakdown.
11. Ten-year Comparative Statement of Income and Balance Sheet items.
12. Expenditures on Research.
13. Labour Relations.
14. Trend of Industry.
15. Officers and Directors.
16. Description of Outstanding Securities, Options, etc.
17. Lease Arrangements.
18. Description of Plants and Properties.
19. Summary of Products.

238. We would point out to the Commission that these recommendations have in the past been approved by the Financial Analysts Federation, recommended in previous briefs to The Royal Commission and legislated in the

Securities Act of a foreign country. These recommendations are therefore not new, nor are they unreasonable demands to be made of Canadian public companies.

EXCHANGE REGULATION OR INTERVENTION

239. Frequently, one hears criticism of the Stock Exchanges for their failure to compel listed companies to issue quarterly reports and to disclose more detailed information - it is said that also in other ways the Exchange should exercise more control by either refusing to list or by suspending those now listed. There may be some ground for this criticism in some areas, but the Exchange is often in a quandary as to how far it should invade two distinct areas of responsibility:

(a) that of Government, and

(b) that of the shareholder.

LEGISLATION VS. REGULATION

240. If it is good for companies listed on one Exchange to issue quarterly reports, give particulars of directors, holdings and transactions in the company shares, etc., etc., is it not equally good for unlisted companies or for companies listed on another Exchange to do likewise? It is suggested that such matters should be the subject of study and possible legislation so that all companies in the jurisdiction should be subject to the same requirements. This legislation can be achieved by co-ordination of provincial Corporation or Security Law and by amendments to the Dominion Companies Act.

SHAREHOLDER ACTION OR EXCHANGE INTERVENTION

241. How far is one Exchange justified in standing in the shareholder's shoes and intervening, or attempting

to intervene, in his company's affairs? The Toronto Stock Exchange does go a great way in this respect with regard to mining, oil or gas producing companies, but, even here, the Exchange must exercise careful judgment and discretion; it is impossible to know in most cases whether a deal is "good" or "bad". The best that can be done is to compel complete disclosure and endeavour to ensure that the information disclosed has wide circulation. This we do through the filing statements referred to in Chapter 7, Part I.

TAKE-OVER BIDS

242. This is perhaps a suitable place to discuss methods of making "take-over bids", i.e., offers made by one person or corporation to purchase shares at a certain price and in a quantity sufficient to give the offeror control of the offeree company. These bids or offers can be broken down into two basic kinds:

(a) Those where the officers and/or directors of the company whose shares are being sought have no prior knowledge of the bid, and

(b) Where the officers and/or directors (or at least some of them) have advance warning of the intentions of the buyer and in some instances may have negotiated the terms of the bid.

243. (A) There is no legislation (and probably should be no legislation) which denies the right of an individual, group or company to make an offer for a block of shares on any terms or conditions which he (or they) may regard

as appropriate. However, in the case of (a), it would seem to be the duty of the officers and/or directors of the company in question to adopt the following policy with regard to the take-over bid:

(1) Recommend either acceptance or rejection of the offer on the part of the shareholders.

(2) State their own individual intention with regard to the offer.

(3) Provide shareholders with an up-to-date statement of the current position of their company, as well as some indication as to its future outlook.

(B) In the case of (b), where the officers and/or directors have advance information, it would seem that they have the following obligations to their shareholders:

(1) Insist, if possible, on the bid being made on a pro rata basis for all shares. (Note: This would apply more particularly in the case of large public companies where a public offer for shares is made. It would not apply where a large or controlling block is purchased privately.)

(2) Insist, if possible, on the bid remaining open for a sufficient period of time to allow all shareholders to deposit their shares.

(3) Require, if possible, that if the offer is for cash, the buyer disclose his intentions with regard to the operation of the company in the future.

(4) Require that if the offer is an exchange

of shares, as full information as possible concerning the "buying" company be made available.

(5) Recommend acceptance or rejection of the offer.

(6) State their own individual intentions with regard to the offer.

(7) Provide shareholders with an up-to-date statement of the current position of the company, as well as some indication as to its future outlook.

244. As to the buyer, it would seem that, generally speaking, his or its name should be disclosed; the offer should be left open for a reasonable period and shares deposited within that period should be allocated on a pro rata basis. But there may be, in some cases, good reason for not doing these things.

245. It must be appreciated that the Stock Exchange influence in this matter can extend only to those companies whose shares are listed on the Exchange, and there is some doubt as to the wisdom of imposing a method of action on such companies which might place them at a disadvantage vis-a-vis unlisted companies, including foreign companies. Nevertheless, it is the intention of the Toronto Stock Exchange to consult as soon as possible with other financial organizations which are interested or involved in the making and accepting of such offers (banks, trust companies and other Canadian stock exchanges) in an effort to evolve a code of procedure which wil be acceptable to all of them and at the same time will not unduly embarrass or restrict persons or companies in the conduct of their affairs.

246. The Toronto Stock Exchange considers that legislative action, probably by amendment of federal and provincial Companies Acts, is desirable in laying down a code of procedure to be applicable to all parties to such "bids" - provided, however, that enactment of the same code in all provinces and by the Federal Government should be simultaneous. Such amendments should be made only after most careful study and consultation with business and financial organizations. There seems to be general agreement that take-overs, mergers or amalgamations are an essential feature of economic growth and development, and care must be taken that the right to take such action is not unreasonably cribbed and hampered.

(Note: The Jenkins Committee Report on Company Law Revision in Great Britain, June 1962, paras. 265 to 294, pages 98 to 110, has interesting comments and recommendations on the subject of "take-overs".)

DIFFERENCE BETWEEN OVER-THE-COUNTER AND EXCHANGE TRADING

247. The basic difference between transactions on the Exchange and over-the-counter is that, in the case of the former, a common meeting ground is established for all attorneys to buy and sell, while, in the case of the unlisted market, transactions are finalized between brokers over the telephone, telex, by mail or any other means of communication available. This precludes any maintenance of formal records or quotations, and, as a consequence, any listings of quotations, volume highs, lows, or such pertinent information as may find its way into the daily press, must of necessity be at best an

approximation. A typical trade in an over-the-counter mining or oil stock would proceed along the following lines.

METHOD OF TRADING

248. The broker receives an order to buy 1000 shares of X Gold Mines at 33 cents on a market which he has quoted as 32 Bid 34 Asked. Upon receipt of this order, his tradee, drawing upon his experience and memory, begins to call brokers he knows to have an interest in this particular stock. He may, in his first call, complete this trade, or, at the end of his rounds, still have the order in hand and have nothing to show for his labours but the fact that he has identified himself to the street as a 33 Bidder for the other traders to store away in *their* memories for the future. Thus, unlike a common trading floor, where bids and offerings are a matter of common knowledge, the over-the-counter trader must be constantly in touch with other brokers, displaying his wares and receiving in return a run of such securities as the other dealers have for purchase or sale. If he consummates a trade, nothing is exchanged between principals but the word of the trader, which, with his background of experience, is the over-the-counter dealer's most treasured stock in trade. Member firms then clear the trade through their clearing house, and trades with non-members are qualified by exchange of contracts and subsequent deliveries are made under an informal rule, broadly based on Exchange regulations.

UNCERTAINTIES

249. While there is no guarantee that the client will

buy his stock at the best offering or sell his stock at the best bid, an experienced trader will almost constantly achieve this in spite of the elements of dispersal which constantly militate against his trading. Dealings are frequently negotiated without regard to fixed spreads or amounts of stock, and the inexorable law of supply and demand applies at all times.

CHANGES IN THE UNLISTED MARKET LIST, 1935-1960

250. In previous cycles of the unlisted market, notably in the eras of 1935-8 and 1943-7, the market in mines, particularly, was broad, active and, at times, more vigorous and active than the listed market for this class of securities. A very close parallel today in content and volume would be the Canadian Stock Exchange. The unlisted mining market, however, began to decline around 1945, when a large number of companies contributing to the volume were accepted for listing, and finally came to an abrupt halt when the Ontario Securities Commission invoked new regulations calling for the sale of all classes of securities not listed on an approved exchange to take place by prospectus only. This led to still more listings, and to the sale of newly discovered mineral properties to already listed mining companies rather than the formation of new companies with what was considered the odious formality and expense of incorporation and distribution of prospectus. The practice of incorporating discoveries into already listed companies persists and, although the Toronto Stock Exchange has in recent years taken a long and

searching look at listing applications, the present trend is to use the Canadian Stock Exchange and Vancouver Stock Exchange as distributing apparati. The somewhat more liberal attitude of the Canadian Stock Exchange toward listings and, indeed, its vigorous solicitation of listings throughout the country, has encouraged this development.

PRESENT SITUATION IN UNLISTED MINES

251. At the present moment, perfunctory trading takes place in hundreds of mining companies daily, but these consist almost entirely of unproven or semi-proven prospects which have been kept alive over the years in anticipation of successful operations or, as in the case of gold, the possibility of a rise in price.

UNLISTED INDUSTRIALS

252. As with mines and oils, the dealer in unlisted industrials acts as principal, prepared to buy or sell. Without his services, there would be no way for an investor to know the market value of his securities. He thus provides, to some degree, the "liquidity" which is more adequately and readily available to the listed securities through the facilities of the Exchange.

LIQUIDITY ESSENTIAL TO ATTRACT CAPITAL

253. Liquidity is an essential consideration to investors and, if no market quotation is available, the investing public will lose confidence in securities. This could lead to increased difficulty in securing the capital required for development of the Canadian economy. Dealers participating in the unlisted market must create buying interest when securities are offered for sale.

Acting as a principal, they must be prepared to buy or sell a reasonable amount when quoting a market. Necessity and sound business practice dictates that when a purchase is made, buying interest must be generated on the part of either their own clients or through their contact with other dealers. This, of course, would not be necessary if a bid existed and was known to them. The operation of an unlisted trading department is costly, as it requires trained personnel and wide-spread communication facilities.

TWO DIVISIONS OF UNLISTED TRADING

254. There are two main divisions of the unlisted industrial market:

(a) The first, which accounts for the majority of the total number of traded and the number of firms participating, is in the secondary market immediately following a new issue of securities. The major number of securities traded in this category are those where listing is contemplated. Usually, it is stated in the prospectus that application will be made for listing. This phase of trading makes a valuable contribution to the successful distribution of the securities. After the initial placing of a new issue, there is, as a rule, a sufficient amount available to the market to warrant maintaining a consistent market. This particularly applies to those issues that sell at a premium immediately after issue. There have, however, been cases of the supply available to the market being at a discount from the original issue

price due to liquidation by members of the selling group or distress selling by original investors. Another important supply of securities to this market is that part of a security sold in the form of a unit containing common shares or warrants to purchase common shares. The number of dealers who participate in this secondary market activity varies and usually decreases as the activity declines.

(b) The second division of the unlisted or over-the-counter market is made up of those dealers who maintain a continuous market on certain unlisted securities. In this category fall those securities such as Insurance Companies, Trust and Loan Companies and Industrial Securities. In all such cases, there is no announced intention to list.

TYPICAL SPREADS FOR DIFFERENT CLASSES OF EQUITY

255. The spread between the bid and ask price for unlisted securities is primarily dependent on the volume of trading. In active markets with considerable volume, the spread may be lowered to one quarter point. If the volume should decline, this spread may be increased to as much as two points or more if firm markets are quoted. It must be remembered that quoting unlisted markets involves liability, as the dealer is acting as a principal in most cases.

TRADING AS BETWEEN CANADIANS AND NON-RESIDENTS

256. There would be considerable variation in this category. There are comparatively few Canadian unlisted

securities that are consistently traded with non-residents, and an accurate estimate is difficult to make. It is our opinion that a rough guess would be 10%.

TRADING AS BETWEEN INDUSTRIALS AND MINES AND OILS

257. Statistics are not available to assess accurately the relative importance of over-the-counter trading in either industrials or mines and oils. It is our opinion that the volume would be considerably higher in the number of daily trades in mining issues, but this would not necessarily apply to an aggregate of of dollar volume over a period of one year.

SIZE OF TYPICAL TRANSACTION

258. The principal division involved in this question would be between industrial and mining shares. In the case of the former and where the price of the equity is within the range of $5.00 and $50.00, the average transaction would be between 500 shares and 200 shares, dependent on price.

TRENDS AND THEIR IMPLICATIONS.

259. Insufficient information is available in connection with share and dollar volume, number of issues, etc., in the over-the-counter market to establish past, or project future, trends. In the opinion of the Exchange, the over-the-counter market fulfills a function with respect to certain types of shares which are not suitable - or not yet ready- for listing, and may be expected to continue to perform that function in the future.

IMPORTANCE OF UNLISTED TRADING

260. The importance of the function of the unlisted

industrial market should be recognized, and it follows that, as the number of issues placed with investors increases, the trading facilities should also increase. Unless it is recognized that there is an obligation on the part of underwriting firms to later provide a market for the securities placed with the public, an important part of the mechanism by which capital may change hands will be missing. This will be a contributing factor to the increased cost of obtaining capital. The price the borrower of capital funds has to pay through issuing non-liquid instruments is evidenced in the mortgage fields. The necessity of making these instruments liquid is now recognized.

REGULATION OF OVER-THE-COUNTER TRADING PRACTICES

261. Too much emphasis has been given to the placing of issues with the public in the primary market without proper allocation of some part of the resulting profit to the maintaining of trading departments whose duty it will be to provide secondary markets. There is a close association of interest between members of the stock exchanges and members of the I.D.A. of C. It is therefore important that any form of regulation of trading practices be considered in the light of its effect on a dealer acting either as a member of the stock exchange or the I.D.A. of C., etc. One example would be the difference of regulations governing the margin requirements for unlisted securities.